KELLOGG, HUBER, HANSEN, TODD & EVANS, P.L.L.C.
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1615 M STREET, N.W.
SUITE 400
WASHINGTON, D.C. 20036-3209

(202) 326-7900
FACSIMILE:
(202) 326-7999

January 17, 2003

Ex Parte Presentation

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Application by SBC Communications Inc., et al. for Provision of In-Region, InterLATA Services in Michigan*, WC Docket No. 03-16

Dear Ms. Dortch:

On behalf of SBC Communications Inc., I am writing to correct a few mistakes that we discovered in yesterday's filing. Specifically, I am enclosing the following:

1. New versions of Attachments A and B to the Carrisalez Affidavit – the filing yesterday mistakenly included a document in Attachment B that should have been a part of Attachment A;

2. A new version of Attachment B to the Gleason Affidavit – the filing yesterday inadvertently omitted five pages;

3. Page 888 of Attachment A to the Henrichs Affidavit – the filing yesterday omitted that page;

4. A new version of Attachment F to the Heritage Affidavit – the filing yesterday contained nine pages that were misprinted; and

5. Copies of Attachments I and J to the Heritage Affidavit – the filing yesterday omitted these attachments.

Ex Parte Presentation

SBC's website will be updated to reflect these corrections. In accordance with this Commission's Public Notice, DA 03-156 (Jan. 16, 2003), SBC is filing this letter electronically through the Commission's Electronic Comment Filing System.

Thank you for your kind assistance in this matter.

Sincerely,

Geoffrey M. Klineberg

cc: John P. Stanley
Gina Spade
Susan Pié
Layla Seirafi-Najar
Dorothy Wideman
Ann R. Schneidewind
Qualex International

Carrisalez Affidavit – Attachment A

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED ARE TRUE AND CORRECT COPIES OF ALL DOCUMENTS ON FILE OF "SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC." AS RECEIVED AND FILED IN THIS OFFICE.

THE FOLLOWING DOCUMENTS HAVE BEEN CERTIFIED:

CERTIFICATE OF INCORPORATION, FILED THE THIRTY-FIRST DAY OF MAY, A.D. 1995, AT 2:30 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID CORPORATION.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

2511836 8100H

020519447

AUTHENTICATION: 1939707

DATE: 08-16-02

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 02:30 PM 05/31/1995
950120050 - 2511836

CERTIFICATE OF INCORPORATION

OF

SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC.

ARTICLE ONE

The name of the Corporation is Southwestern Bell Communications Services, Inc.

ARTICLE TWO

The address of the registered office of the Corporation in the State of Delaware is Corporate Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE THREE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOUR

The total number of shares of stock which the Corporation is authorized to issue is one thousand (1,000) shares of common stock, having a par value of one dollar ($1.00) per share.

ARTICLE FIVE

The business and affairs of the Corporation shall be managed by the Board of Directors. The directors need not be elected by ballot unless required by the Bylaws of the Corporation.

ARTICLE SIX

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, amend or repeal the Bylaws.

ARTICLE SEVEN

The initial Board of Directors of the Corporation shall be the following individuals:

James D. Ellis	175 E. Houston San Antonio, TX 78205
Charles E. Foster	175 E. Houston San Antonio, TX 78205
James S. Kahan	175 E. Houston San Antonio, TX 78205

ARTICLE EIGHT

The Corporation reserves the right to amend and repeal any provision contained in this Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware. All rights herein conferred are granted subject to this reservation.

ARTICLE NINE

The incorporator is James D. Ellis, whose mailing address is 175 E. Houston, San Antonio, TX 78205.

ARTICLE TEN

I, the undersigned, being the incorporator, for the purpose of forming a corporation under the laws of the State of Delaware do make, file and record this Certificate of Incorporation, do certify that the facts herein stated are true, and accordingly, have hereto set my hand this 31st of May, 1995.

J D Ellis

Carrisalez Affidavit – Attachment B

ARTICLES OF INCORPORATION
OF
SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC.

The undersigned, pursuant to Chapter 9 of Title 13.1 of the Code of Virginia, states as follows:

1. The name of the corporation is Southwestern Bell Communications Services, Inc.

2. The number of shares the corporation is authorized to issue is one thousand (1,000) shares of common stock, having a par value of one dollar ($1.00) per share.

3. A. The corporation's initial registered office address which is the business address of the initial registered agent is 5511 Staples Mill Road, Richmond, Virginia 23228.

   B. The registered office is physically located in the County of Henrico

4. A. The name of the corporation's initial registered agent is Edward R. Parker.

   B. The initial registered agent is a resident of Virginia and a member of the Virginia State Bar.

5. The names and addresses of the initial directors are:

   Charles E. Foster
   175 E. Houston
   San Antonio, Texas 78205

   James S. Kahan
   175 E. Houston
   San Antonio, Texas 78205

   James D. Ellis
   175 E. Houston
   San Antonio, Texas 78205

6. Incorporator

   Paul K. Mancini

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

June 13, 1995

The State Corporation Commission has found the accompanying articles submitted on behalf of

SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC.

to comply with the requirements of law, and confirms payment of all related fees.

Therefore, it is ORDERED that this

CERTIFICATE OF INCORPORATION

be issued and admitted to record with the articles of incorporation in the Office of the Clerk of the Commission, effective June 13, 1995.

The corporation is granted the authority conferred on it by law in accordance with the articles, subject to the conditions and restrictions imposed by law.

STATE CORPORATION COMMISSION

By T.V. Morrison Jr.

Commissioner

CORPACPT
CIS20460
95-06-09-0095

Commonwealth of Virginia

State Corporation Commission

I Certify the Following from the Records of the Commission:

The foregoing is a true copy of all documents constituting the charter of SOUTHWESTERN BELL COMMUNICATIONS SERVICES, INC. on file in the Clerk's Office of the Commission.

Nothing more is hereby certified.

Signed and Sealed at Richmond on this Date:
August 16, 2002

Joel H. Peck

Joel H. Peck, Clerk of the Commission

CIS0508

09/09/2002 01:36 9254683191 REGULATORY PAGE 03

Gleason Affidavit – Attachment B

AMERITECH MICHIGAN SUMMARY
WIRELINE INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
1.	1-800-Reconex, Inc. – Interconnection Agreement	6/5/01	6/15/01
2.	5Star Phone Center, Inc. – Resale Agreement	7/10/02	7/20/02
3.	Access One, Inc. – Interconnection Agreement	3/29/02	4/8/02
4.	ACN Communication Services, Inc. – Interconnection Agreement	12/6/02	12/16/02
5.	AccuTel of Texas, Inc. – Interconnection Agreement	9/16/02	9/26/02
6.	ACD Telecom, Inc. – Interconnection Agreement	9/7/01	6/4/01
7.	Adelphia Business Solutions – Interconnection Agreement	7/11/01	3/16/01
8.	Allegiance Telecom of Michigan, Inc. – Interconnection Agreement	9/7/01	5/2/01
9.	American Fiber Network, Inc. – Interconnection Agreement	10/6/00	10/16/00
10.	Americom, Inc. – Resale Agreement	11/20/01	12/1/01
11.	AmeriVoice Telecommunications, Inc. – Resale Agreement	9/27/01	10/7/01
12.	AT & T Communications of Michigan, Inc. – Interconnection Agreement	3/21/02	3/21/02
13.	Baraga Telephone Company – Interconnection Agreement	11/7/02	11/17/02
14.	Bilan Communications – Interconnection Agreement	10/6/00	11/29/99
15.	Borderland Communications, LLC – Interconnection Agreement	10/11/01	10/21/01
16.	Brooks Fiber Communications of Michigan, Inc. – Interconnection Agreement	11/26/96	8/5/96
17.	B & S Telecom, Inc. – Interconnection Agreement	9/7/01	9/17/01
18.	Buckeye Telesystem, Inc. – Interconnection Agreement	7/11/01	4/10/01
19.	Budget Phone, Inc. – Interconnection Agreement	10/3/02	10/13/02
20.	Bullseye Telecom – Interconnection Agreement	3/29/02	4/8/02
21.	Call Giant, Inc. – Interconnection Agreement	5/16/02	5/26/02
22.	CallUp, Inc. – Interconnection Agreement	6/30/99	4/19/99
23.	CAT Communications International, Inc. d/b/a CCI – Interconnection Agreement	10/3/02	10/13/02
24.	CenturyTel Solutions, LLC – Interconnection Agreement	4/16/02	4/26/02

AMERITECH MICHIGAN SUMMARY
WIRELINE INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
25.	Choctaw Communications, Inc. d/b/a Smoke Signal Communications – Interconnection Agreement	12/20/02	12/30/02
26.	Ciera Network Systems, Inc. – Interconnection Agreement	10/11/01	10/21/01
27.	CityNet Telecommunications, Inc. – Interconnection Agreement	11/7/02	11/17/02
28.	Climax Telephone Company – Interconnection Agreement	8/13/97	7/11/97
29.	C.L.Y.K., Inc. d/b/a Affinity Telecom – Interconnection Agreement	8/20/02	8/30/02
30.	CMC Telecom, Inc. – Interconnection Agreement	Pending	Pending
31.	Coast-to-Coast Telecommunications, Inc. – Interconnection Agreement	10/24/00	9/18/00
32.	Comcast Telecommunications, Inc. – Interconnection Agreement	7/10/02	5/20/02
33.	Comm South Companies, Inc. – Interconnection Agreement	7/23/02	8/2/02
34.	CoreComm Michigan, Inc. – Interconnection Agreement	6/19/00	4/15/00
35.	Delta Phones, Inc. – Interconnection Agreement	12/20/02	12/30/02
36.	DIECA d/b/a Covad Communications Company – Interconnection Agreement	7/11/01	1/23/01
37.	Digital Telecommunications, Inc. – Resale Agreement	11/20/01	11/30/01
38.	DSLnet Communications, LLC – Interconnection Agreement	3/29/02	4/8/02
39.	EagleNet, Inc. – Interconnection Agreement	1/8/02	7/12/01
40.	Easton Telecom Services, LLC – Interconnection Agreement	11/7/02	11/17/02
41.	Emergent Communications, LLC – Resale Agreement	11/20/01	11/30/01
42.	Ernest Communications, Inc. – Interconnection Agreement	5/16/02	5/26/02
43.	essential.com, Inc. – Resale Agreement	7/7/00	7/27/00
44.	Essex Communications, Inc. d/b/a eLEC Communications – Interconnection Agreement	12/4/00	12/14/00
45.	Excel Communications, Inc. – Interconnection Agreement	6/6/02	6/16/02
46.	EZ phone, Inc. – Resale Agreement	6/6/02	6/16/02
47.	First Communications, LLC – Interconnection Agreement	5/16/02	5/26/02
48.	Focal Communications Corporation – Interconnection Agreement	3/29/01	11/27/01
49.	Global Crossing Telemanagement, Inc. – Interconnection Agreement	5/27/99	11/13/98
50.	grid4 Communications, Inc. – Interconnection Agreement	5/16/02	5/26/02

AMERITECH MICHIGAN SUMMARY
WIRELINE INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
51.	GTE Communications Corporation – Interconnection Agreement	7/15/98	3/30/98
52.	HJN Telecom, Inc. – Resale Agreement	10/6/00	10/16/00
53.	ICG Telecom Group, Inc. – Interconnection Agreement	7/6/00	7/16/00
54.	Jato Operating Two Corporation – Interconnection Agreement	1/19/00	9/7/99
55.	Joy Lines, Inc. – Resale Agreement	5/16/02	5/26/02
56.	KMC Telecom II, Inc. – Interconnection Agreement	2/25/02	6/5/01
57.	KMC Telecom III, Inc. – Interconnection Agreement	2/25/02	6/5/01
58.	KMC Telecom V, Inc. – Interconnection Agreement	2/25/02	6/5/01
59.	LCI International Telecom Corporation d/b/a Qwest Communications – Interconnection Agreement	3/10/98	2/10/98
60.	Level 3 Communications, LLC – Interconnection Agreement	2/5/01	2/15/01
61.	Line 1 Communications, LLC d/b/a Direct Line – Interconnection Agreement	Pending	Pending
62.	Local Exchange Carriers of Michigan, Inc. – Interconnection Agreement	1/8/02	6/12/01
63.	Long Distance of Michigan, Inc. d/b/a LDMI – Interconnection Agreement	4/24/00	11/8/99
64.	Lucre, Inc. – Interconnection Agreement	5/27/99	3/26/99
65.	Maverix.net, Inc. – Interconnection Agreement	10/6/00	10/16/00
66.	Maxcess, Inc. – Interconnection Agreement	12/20/00	12/30/00
67.	MCImetro Access Transmission Services, LLC – Interconnection Agreement	7/31/97	6/16/97
68.	MCI WORLDCOM Communications, Inc. – Interconnection Agreement	12/20/96	5/17/96
69.	McLeod USA – Interconnection Agreement	5/1/02	5/11/02
70.	Metro Teleconnect Companies, Inc. – Resale Agreement	8/20/02	8/30/02
71.	MichTel, Inc. – Interconnection Agreement	9/27/01	6/5/01
72.	Michigan's Utility & Company Payment Systems – Interconnection Agreement	12/4/00	12/14/00
73.	Midwestern Telecommunications, Inc. – Resale Agreement	7/11/01	7/21/01
74.	MOR Communications, LLC – Resale Agreement	5/16/02	5/26/02
75.	Mpower Communications Corporation – Interconnection Agreement	3/29/02	4/8/02

AMERITECH MICHIGAN SUMMARY
WIRELINE INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
76.	Navigator Telecommunications, LLC – Interconnection Agreement	9/16/02	9/26/02
77.	New Access Communications, LLC – Interconnection Agreement	7/23/02	8/2/02
78.	New Edge Network, Inc. – Interconnection Agreement	10/6/00	10/16/00
79.	Nexus Communications, Inc. – Interconnection Agreement	11/7/02	11/7/02
80.	Norlight Telecommunications, Inc. – Interconnection Agreement	6/6/02	6/16/02
81.	NOS Communications, Inc. – Interconnection Agreement	7/23/02	8/2/02
82.	NOW Communications, Inc. – Interconnection Agreement	2/5/01	2/15/01
83.	Ntegrity Telecontent Services, Inc. – Interconnection Agreement	10/6/00	5/31/00
84.	PaeTec Communications, Inc. – Interconnection Agreement	3/7/01	3/17/01
85.	Phone-Link, Inc. – Resale Agreement	7/23/02	8/2/02
86.	Preferred Carrier Services, Inc. d/b/a Phones for All and Telephonos Para Tudos– Interconnection Agreement	1/8/02	1/18/02
87.	Premiere Network Services, Inc. – Interconnection Agreement	3/29/02	4/8/02
88.	Quality Telephone – Resale Agreement	11/7/02	11/17/02
89.	Quantum Shift – Interconnection Agreement	9/18/00	7/31/00
90.	Quick Communications Corporation – Interconnection Agreement	9/7/01	9/17/01
91.	RACC Enterprises, LLC – Interconnection Agreement	1/8/02	1/18/02
92.	RVP Fiber Company – Interconnection Agreement	3/29/02	4/8/02
93.	Sage Telecom, Inc. – Interconnection Agreement	10/3/02	10/13/02
94.	ServiSense.com, Inc. – Resale Agreement	8/17/00	8/27/00
95.	Sprint Communications Company, LP – Interconnection Agreement	11/7/02	11/7/02
96.	Stonebridge Communications, Inc. – Resale Agreement	6/6/02	6/16/02
97.	Superior Technologies, Inc. d/b/a Superior Spectrum Communications – Interconnection Agreement	8/16/01	3/15/01
98.	Sure-Tel, Inc. – Interconnection Agreement	3/29/02	4/8/02
99.	Synopsis Communications, Inc. – Resale Agreement	6/6/02	6/16/02
100.	Talk America, Inc. – Interconnection Agreement	11/7/02	11/17/02
101.	Talk Unlimited Now, Inc. – Interconnection Agreement	12/6/02	12/16/02

AMERITECH MICHIGAN SUMMARY
WIRELINE INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
102.	TDS Metrocom, Inc. – Interconnection Agreement	12/20/01	12/30/01
103.	Telicor, Inc. – Interconnection Agreement	6/5/01	6/15/01
104.	TCG Detroit – Interconnection Agreement	3/21/02	3/21/02
105.	Teligent Services, Inc. – Interconnection Agreement	Pending	Pending
106.	TelNet Worldwide, Inc. – Interconnection Agreement	9/27/01	4/30/01
107.	Truly Clear Communications, Inc. – Interconnection Agreement	10/29/01	11/8/01
108.	United Telecom – Interconnection Agreement	3/29/02	4/8/02
109.	United States Telecommunications, Inc. – Resale Agreement	4/23/99	8/10/98
110.	Universal Telecom, Inc. – Resale Agreement	6/6/02	6/16/02
111.	US West Interprise America, Inc. – Interconnection Agreement	11/5/98	10/20/97
112.	US Xchange of Michigan, Inc. – Interconnection Agreement	9/7/01	4/9/01
113.	VarTec Telecom, Inc. – Interconnection Agreement	3/29/02	4/8/02
114.	Vertex Broadband Corporation – Resale Agreement	8/20/02	8/30/02
115.	Waypoint Telecommunications, LLC – Interconnection Agreement	6/21/02	7/1/02
116.	Williams Local Network, LLC – Interconnection Agreement	8/20/02	8/30/02
117.	Winn Telephone Company d/b/a Winn Telecom – Interconnection Agreement	5/16/02	5/26/02
118.	Winstar Communications, LLC – Interconnection Agreement	6/6/02	6/16/02
119.	XO Michigan, Inc. – Interconnection Agreement	1/8/02	1/8/02
120.	Zenk Group, LTD d/b/a Planet Access – Interconnection Agreement	2/25/02	3/7/02

AMERITECH MICHIGAN SUMMARY
COMMERCIAL MOBILE RADIO SERVICE (CMRS) INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
1.	AirTouch Paging – CMRS (Paging) Interconnection Agreement	8/17/99	5/11/99
2.	Alert Communications, LLC – CMRS (Paging) Interconnection Agreement	3/7/01	11/29/00
3.	Alltell – CMRS Interconnection Agreement	6/25/97	1/29/97
4.	Alpine – Michigan E, Inc. – CMRS Interconnection Agreement	10/11/01	8/8/01
5.	Alpine – Michigan F, LLC – CMRS Interconnection Agreement	10/11/01	8/2/01
6.	Alpine PCS, Inc. – CMRS Interconnection Agreement	9/7/01	7/2/01
7.	American Cellular Corporation / Dobson Communications Corporation – CMRS Interconnection Agreement	2/1/02	2/1/02
8.	Ameritech Mobile Communications, Inc. – CMRS Interconnection Agreement	2/22/00	8/7/99
9.	Arch Paging, Inc. – CMRS Interconnection Agreement	2/22/00	1/4/00
10.	AT&T Wireless Services, Inc. – CMRS Interconnection Agreement	7/11/01	7/11/01
11.	Centennial Communications Corporation – CMRS Interconnection Agreement	2/25/98	9/15/97
12.	CenturyTel Wireless, Inc. – CMRS Interconnection Agreement	1/10/00	2/10/00
13.	Cricket Communications, Inc. – CMRS Interconnection Agreement	9/7/01	7/7/01
14.	Heartland Communications – CMRS Interconnection Agreement	3/29/02	2/23/01
15.	Message Express Company – CMRS Interconnection Agreement	5/27/99	3/22/99
16.	Metrocall, Inc. – CMRS Interconnection Agreement	4/11/00	2/7/00
17.	New Cell, Inc. – CMRS Interconnection Agreement	3/7/01	9/11/00
18.	Nextel West Corporation – CMRS Interconnection Agreement	12/6/99	8/6/99
19.	NPI-OmniPoint Wireless, LLC – CMRS Interconnection Agreement	2/25/98	9/29/97
20.	Pagenet, Inc. – CMRS Interconnection Agreement	5/27/99	3/11/99
21.	PageData – CMRS Interconnection Agreement	Pending	Pending
22.	Range Telecommunications, Inc. – CMRS Interconnection Agreement	6/19/00	7/19/00
23.	RFB Cellular, Inc. – CMRS Interconnection Agreement	8/16/01	6/20/01

AMERITECH MICHIGAN SUMMARY
COMMERCIAL MOBILE RADIO SERVICE (CMRS) INTERCONNECTION AGREEMENT LIST

	CLEC Interconnection Agreement	Approval Date	Effective Date
24.	Sprint Spectrum – CMRS Interconnection Agreement	10/15/97	5/30/97
25.	Thumb Cellular – CMRS Interconnection Agreement	1/10/00	2/10/00
26.	Verizon Wireless – CMRS Interconnection Agreement	4/16/02	10/28/01
27.	VoiceStream Wireless – CMRS Interconnection Agreement	1/23/01	10/24/00
28.	WaveSent, LLC – CMRS Interconnection Agreement	Pending	Pending

Stipulations

1. This policy applies to 900. 700 Service, intraLATA 976 Service or any other service where objectionable programs could potentially emerge.

2. This policy will be implemented in a manner consistent with Ameritech's current technical capabilities, plans and policies.

3. Ameritech will not knowingly enter into any agreement that potentially could lead to Ameritech's provision of Billing Services for objectionable programs.

4. Determination as to what constitutes "objectionable" shall be subject to regulatory and legal requirements.

5. Ameritech will provide Customers the ability to prevent access via blocking to 900 and IntraLATA 976 Services. The call blocking service will be available at no charge. Blocking is not available from Ameritech for 700 Services. (Ameritech - Wisconsin will not submit billing for 700 Service to an end user who has 900/976 blocking).

6. Ameritech will adjust in full and recourse to the billing entity those charges that an end user refuses to pay and for which local dial tone cannot be denied. Further, where technically possible, all charges for 900, 700 or like services will be adjusted from an end users bill and recoursed to the billing entity when the account is permanently disconnected.

7. The Billing and Customer Information Services organization of Ameritech's Long Distance Industry Services unit will have the authority and responsibility to ensure the effective implementation of this policy.

8. Failure to comply with these guidelines or provision of false information may be grounds for denial of all Billing Services.

Heritage Affidavit – Attachment F

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Hauppauge, NY 11788

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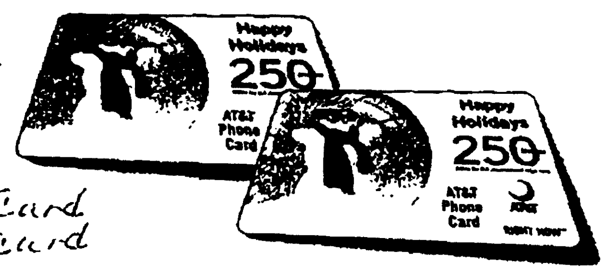

[redacted]

This time of year, it's important to reconnect with family and friends. What better way to do this than with a local calling plan that lets you talk as long as you like and two AT&T Phone Cards worth up to 500 minutes?

Choose AT&T Unlimited Local Service with three great calling features

AT&T Local Service gives you reliable, quality service on unlimited local calls from home, along with Caller ID and your choice of two additional calling features.† Choose from:
>> Call Waiting >> Three-Way Calling >> Call Return >> Call Forwarding >> Speed Dialing 8.
All for just $31.00 a month.‡

Just in time for the holidays: up to 500 calling minutes

When you sign up for AT&T Local Service, we'll activate the two AT&T Phone Cards enclosed worth up to 250 minutes each. (Be sure to write down the two personal ID numbers we give you when you call, one on the back of each card.) You can keep both cards, if you wish, or you can give one (or both) of them away in the spirit of the season. AT&T Phone Cards make it easy to stay in touch, make plans for the season, and connect with loved ones. They also make great gifts.

Just call 1 800 321-8051 and ask for ext. 32818 to enroll in AT&T Local Service

Call today and start enjoying AT&T Local Service — and your AT&T Phone Cards. For more information, visit us online at www.att.com/home. So why wait? Make the switch. Then start making phone calls. It's the time of year to stay in touch.

Sincerely,

Michelle Richardson

Michelle Richardson
AT&T Local Service

One company takes care of it all:

- Unlimited local calling from home
- Three great calling features
- Two AT&T Phone Cards worth up to 500 minutes

Call **1 800 321-8051** and ask for **ext. 32818** to enroll and activate your AT&T Phone Cards.

* Total of up to 500 minutes which are based on U S domestic calling International rates vary and are subject to change See card carrier for full terms and conditions If you've recently accepted another offer to switch to AT&T Local Service, we can fulfill only on the first response received You must be an AT&T Residential Long Distance subscriber.

† All features may not be available in all areas and some features may not be compatible with each other. Caller ID equipment is required

‡ A per line access fee for local service (FCC Line Charge). Universal Connectivity Charge, and other charges apply. AT&T Local Service is not available in all areas

AT&T
RIGHT NOW℠

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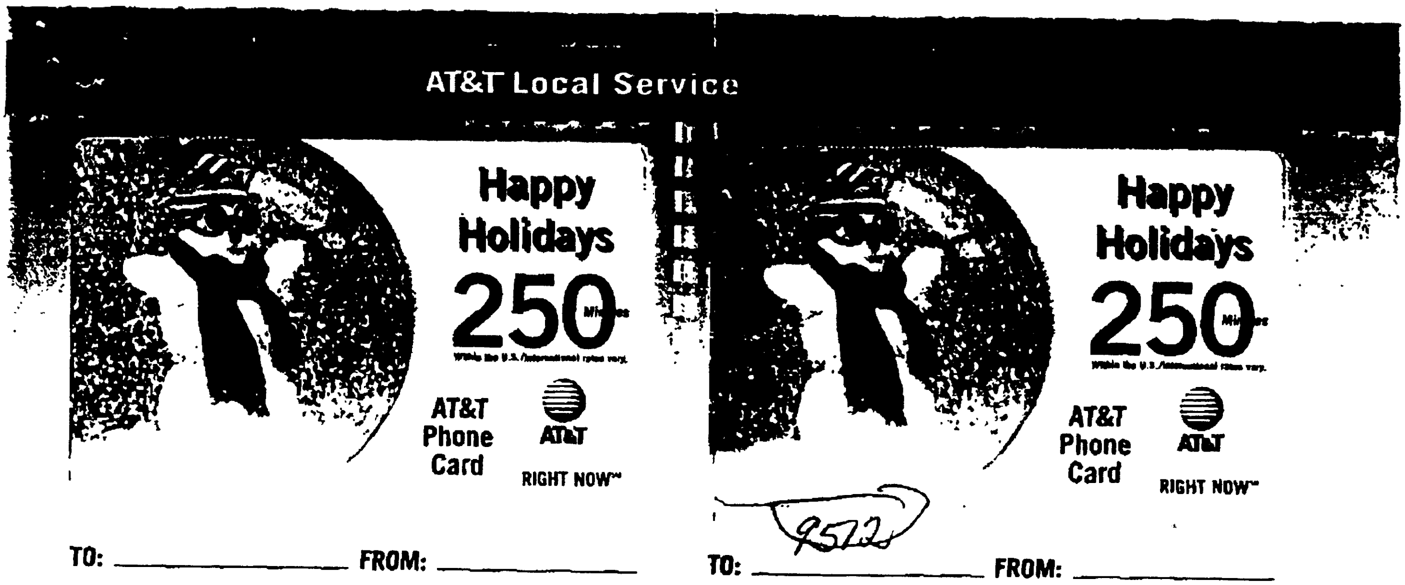
SCNC-1102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News Release

FOR RELEASE TUESDAY, APRIL 9, 2002

AT&T Signs 50,000 Residential Local Service Customers in Michigan

DETROIT – AT&T today announced that more than 50,000 Michigan households are now served by AT&T Local Service – just a few weeks after the company announced general availability.

"This is a clear indication of the pent-up demand for local service choice in Michigan, " said Phil Tonge, president of local markets, AT&T Consumer. "Michigan residents are calling in droves to find out what we have to offer and they like what they hear."

AT&T reports that those who have elected to change their local service from SBC Ameritech to AT&T cite the convenience of having a single bill for local and long distance calling and a single company to contact for customer service as the main reason for switching.

The AT&T Local Service plan most often selected by Michigan consumers is the AT&T Call Plan 400 with 3 Feature Package Enhanced. It offers residents 400 local calls per month; Caller ID listing the name and number of the caller; and a choice of two additional features such as Call Waiting, 3 Way Calling, Call Return, Call Forwarding or eight-number Speed Dialing. The plan costs $31.00 per month.

AT&T Local Service customers also can choose to add any of an array of attractively priced subscription-based AT&T long distance offers including AT&T One Rate® 7 Cent Plus Plan. With this plan, customers pay a rate of 7 cents per minute on all direct-dialed state-to-state, in-state and local toll calls. There is a $3.95 monthly fee.

Another long distance option is the recently introduced AT&T Unlimited offer, which allows subscribers to make unlimited direct-dialed long distance calls from home and talk as much as they want to other AT&T residential long distance subscribers in the U.S. for only $19.95 a month. Other state-to-state long distance calls are priced at 7 cents per minute.

To sign up for AT&T residential local service in Michigan, consumers can call toll free 1 877 880-5023.

About AT&T: AT&T (www.att.com) is among the world's premier voice, video and data communications companies, serving consumers, businesses and government. Backed by the research and development capabilities of AT&T Labs, the company runs the world's largest, most sophisticated communications network and is the largest cable operator in the U.S. The company is a leading supplier of data, Internet and managed services for the public and private sectors, and offers outsourcing, consulting and networking-integration to large businesses and government. Serving nearly 60 million consumers, AT&T is the market leader in consumer communications services and operates AT&T WorldNet® Service, a leading Internet access service that has garnered several awards for outstanding customer service.

This press release contains "forward-looking statements" within the means of the Private Securities Litigation Reform Act of 1995. These include, but are not limited to, statements regarding the Company's plans, intentions and expectations. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. These risks include increased levels of competition, shortages of cellular handsets and other key equipment, restrictions on the Company's ability to finance its growth and performance can be found in the Company's reports filed with the Securities and Exchange Commission. Given these concerns, investors and analysts should not undue reliance on forward-looking statements.

For more information, reporters may contact:

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News Release

AT&T

FOR RELEASE WEDNESDAY, FEBRUARY 13, 2002

AT&T Enters Residential Local Phone Market in Michigan

Company lauds state officials for promoting competition with SBC Ameritech by setting fair wholesale rates

DETROIT – AT&T today announced it has begun offering Michigan consumers currently served by SBC Ameritech a new choice for residential local phone service.

The company is offering Michigan residents several local calling plans with the ability to add an attractively priced long distance plan and receive a single monthly bill.

"Gov. Engler and the Michigan Public Service Commission are to be commended for setting wholesale prices that reflect the cost of providing local service in the state of Michigan, " said Phil Tonge, president of local markets, AT&T Consumer. "We look forward to offering Michigan residents the convenience of dealing with one company for their local and long distance calls along with competitive pricing and high-quality customer service."

AT&T offers a variety of local and long distance calling plans to best suit consumers' individual needs. For example, the AT&T Call Plan 400 with 3 Feature Package Enhanced, includes the following for $31.00 per month:

- 400 local calls per month. Calls cost 6 cents per call beyond the 400-call plan limit.
- Caller ID listing the name and number of the caller.
- A choice of two additional features such as Call Waiting, 3 Way Calling, Call Return, Call Forwarding or eight-number Speed Dialing.
- A single, simple-to-read bill for local and long distance calls.
- One phone number to call for all customer service needs.

AT&T local service customers can choose from an array of attractively priced subscription-based AT&T long distance offers, including the recently announced AT&T Unlimited, an offer only AT&T can provide. AT&T Unlimited subscribers can make unlimited direct-dialed long distance calls from home and talk as much as they want to other AT&T residential long distance subscribers in the U.S. for only $19.95 a month.

"If Michigan callers combine AT&T Unlimited with its local counterpart, AT&T Call Plan Unlimited, they can enjoy the freedom that only AT&T provides of virtually unlimited local and long distance calling for one monthly fee," said Tonge.

Consumers who select AT&T for their local residential service will be able to keep their existing phone number and, if they choose the offer now, AT&T will pay all switching charges.

AT&T is initially providing local service to Michigan residents by leasing parts -- unbundled network elements -- provided by the state's monopoly provider of local service, SBC Ameritech. The company ultimately intends to use its own facilities, where feasible, to serve many customers.

AT&T already offers local service to businesses in the Detroit metropolitan area.

To sign up for AT&T residential local service in Michigan, consumers can call toll free 1 877-880-5023.

About AT&T

AT&T (www.att.com) is among the world's premier voice, video and data communications companies, serving consumers, businesses and government. Backed by the research and development capabilities of AT&T Labs, the company runs the world's largest, most sophisticated communications network. The company is a leading supplier of data and Internet services for businesses and offers outsourcing, consulting and networking-integration to large businesses.

The foregoing are "forward-looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. Readers are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. For a more detailed description of the factors that could cause such a difference, please see AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This information is presented solely to provide additional information to further understand the results of AT&T.

For more information, reporters may contact:

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908-221-5942 (office)
908-672-4285 (cell)
vshasselbach@att.com

Mike Pruyn - AT&T
312-230-4894 (office)
mpruyn@att.com

Chicago Sun-Times

www.suntimes.com

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http://www.suntimes.com/output/business/cst-fin-att06.html

Print this page

AT&T local available to all area residences

June 6, 2002

BY TAMMY WILLIAMSON BUSINESS REPORTER

Long-distance giant AT&T expanded its local telephone service to all residential telephone users in the Chicago area, joining a growing number of companies seeking business from residential customers served by SBC Ameritech Illinois.

Until now, AT&T offered local-phone service only in some northwest suburbs where it owned cable lines, which it used to deliver phone service. Now, AT&T joins other phone companies such as MCI WorldCom in seeking local phone customers. The idea is to get phone customers to buy local service, long-distance service and other features, such as Internet service, from one provider.

"Customers want choice," Kevin Crull, senior vice president of AT&T's consumer division, said in a conference call with reporters Wednesday. "There's a lot of customers, too, who just respond well to the AT&T brand."

According to the most recent, year-old data from the Federal Communications Commission, Ameritech's share of the local business and residential phone market had declined to 87 percent, a number Ameritech believes is actually 84 percent or lower. That means the other 13 percent is with companies such as MCI WorldCom, Z-Tel Communications and others.

Phone companies are able to sell local phone service following 1996 changes to federal telecommunications laws. Since the federal government deregulated long distance in the mid-1980s and broke up AT&T in regional Bell operating companies, Illinois telephone customers have long had a choice of long-distance providers. After local service was deregulated six years ago, competition has trickled in slowly as companies like Ameritech parent SBC Communications Inc. and long-distance companies litigated over various aspects of the newer deregulation laws.

SBC and other former Baby Bell monopolies are required to lease their phone equipment to competitors, who then resell phone service to customers. That's done because it's not cost-efficient for every phone company to lay its own phone lines and maintain infrastructure.

Part of the 1996 law change allows companies such SBC to sell long-distance service in return for opening their networks to competitors. SBC Ameritech Illinois has been undergoing rigorous evaluation of the hospitality of its phone network since last year, a necessary step in persuading the FCC to give it permission to sell long distance. SBC Ameritech Illinois hopes to be selling long distance by next year.

In its quest for new customers, AT&T, in addition to selling local service, hopes to entice customers to also get their long distance from the company. Its five calling plans start at $16 a month for no-frills local service up to $26 monthly for unlimited local calling within 15 miles of home, with caller ID plus two other services, such as call waiting and call forwarding. If a phone customer picks AT&T for both local and long-distance, packages would start at $19.95 per month plus 7 cents a minute for long distance calls. AT&T is also offering a $45.95 a month for unlimited local and long-distance calls (to fellow AT&T customers, that is), spokesman Mike Pruyn said. It costs more if you call a non-AT&T long distance customer.

There's no break on your AT&T phone bill, however, if you're an AT&T Broadband cable customer. That's a separate division of the company that's being spun off to Comcast Corp., a rival cable company, later this year.

AT&T held off on offering local service over disputes it had with SBC Ameritech on several issues--such as how much SBC Ameritech charged competitors to use its network, and on concerns that customers who decided to switch from SBC Ameritech could wind up with no service, if their order was lost or messed up. A recent federal court ruling resolved the leasing cost matter, and SBC Ameritech's ability to handle switching orders has improved, regulators have said.

AT&T won't say how many customers in Illinois it believes it can capture. Crull said when AT&T began offering local service in Michigan last year, it signed up 100,000 households, or about 5 percent of the local phone market, within three months of launching local service. SBC Ameritech is the former Baby Bell monopoly in Michigan as well.

AT&T said it will kick off an advertising blitz soon, though the company did not give a kick-off date. It will advertise via television, billboards and in newspapers, the company said.

MCI WorldCom earlier this year kicked off its Neighborhood plan, offering unlimited local and long distance for a monthly price of $49.99.

According to the Illinois Commerce Commission, the state agency that regulates telephone companies, about two dozen phone companies are registered to sell residential telephone service in the Chicago area, including MCI WorldCom, RCN 21st Century and Z-Tel Communications.

Just call
1 800
326-2405,
ext. 20841,
to switch to
AT&T Local
and Long
Distance and
then cash this
$40 check.

AT&T

SIGNING, CASHING, AND/OR DEPOSITING OF THIS CHECK WILL SWITCH YOUR LONG DISTANCE, LOCAL TOLL, AND LOCAL SERVICES TO AT&T.

CALL 1 800 326-2405, EXT. 20841, FOR YOUR CHECK CODE BEFORE CASHING YOUR CHECK.

WRITE YOUR CODE HERE
9236

710571

75-405
919

NO. 4295450

Issue Date: 10/25/02
Check expires 30 days from date of issue.

[redacted]

VOID

NOV 11 2002

Forty and 00/100 Dollars

Check Amount
$40.00

PAY TO THE ORDER OF:
[redacted]
Grand Rapids, MI 49507-3823

Attention financial institution. Check must be endorsed with payee's signature to be valid for cashing and/or deposit. Payee's name cannot be altered.
VOID IF ALTERED.
Amount not to exceed $40.

Edward M. Dwyer
AUTHORIZED SIGNATURE
Citizens State Bank, Clara City, MN 56222

4295450 091904856 71 057 1

Local and Long Distance Together℠ ATT Consumer

It's as easy as picking up the phone

[and cashing this $40 check]. ATT-$40 Value CK & ATT Local Call (resale) & vert. feat. $34.95/mo

Use AT&T for all of your calls and get:

One easy-to-read bill

Unlimited local calling with 3 calling features

7¢ a minute for calls outside your home calling region

Call 1 800 326-2405, ext. 20841

[redacted]

Life in Michigan just got a whole lot easier. Because now AT&T all-in-one phone service is at your service. When you choose AT&T for all of your calls, you not only get the benefit of our more than 120 years of quality and dependability. You also get a check for $40 to spend however you'd like. How easy is that?

Unlimited AT&T Local Calling Service with three convenient calling features.
To start, you'll get unlimited local calling from home each month, plus Caller ID with Name, so you always know who's calling. You also get your choice of two additional calling features such as Call Waiting, Three-Way Calling, Call Forward, and Call Return.*

Low rates outside your local calling area, too.
And there's more: You also get a low 7¢-a-minute flat rate on all your local toll, in-state, and state-to-state calls from home. And that rate stays the same, no matter what time of the day or night you call.

Best of all, you get the entire package, including the low long distance rate, the unlimited local service, and three great calling features all for only $34.95 a month.†

Don't miss this great offer. Sign up today!
One company. One simple package with local and long distance together. One easy-to-read statement. One customer service number. One great check. There's only one thing left to do: Pick up the phone and call us right now: **1 800 326-2405, ext. 20841.**

Sincerely,

Brietta E. Fonteix

Brietta E. Fonteix
AT&T Marketing Manager

AT&T Consumer

Right now.℠

* Caller ID equipment required. Features are not available in all areas. Some features may not work together.
† For residential customers only. AT&T Local Service not available in all areas. A per-line access fee for local service (FCC Line Charge); Universal Connectivity Charge on local, state-to-state, and international calls; and other state charges apply. For more details about *these charges, please call 1 800 326-2405, ext. 20841. The $34 95 monthly fee is calculated by combining the $3.95 fee for the* specific AT&T domestic long distance calling plan with local toll service and the $31 00 fee for AT&T Local Service. You must be an AT&T Local Service subscriber to receive the specific AT&T domestic long distance calling plan state-to state, in state, and local toll rates. Subject to billing availability. To complete your order for AT&T Local Service, you must call our toll free number and speak to an AT&T representative to order local service, indicate the local calling features you wish to receive, and your local directory listing.

Please see important information on the back.

Detroit, MI 48226
9170

NOV 05 2002

SOME THINGS IN LIFE ARE GUARANTEED.

Like AT&T's $31 unlimited local calling rate.

Call 1 888-888-7650 or visit ATT.COM/HOME

RIGHT NOW™

AT&T
Consumer

(9170)

GET AT&T UNLIMITED LOCAL CALLING NOW FOR $31 A MONTH.*

Plus, we'll give you a $25 bill credit.

exp 12/31/02 local-resale ATT consumer
id ATT Unlimited
Bill Credit $31/mo
vert. features

AT&T is committed to giving you the best in local phone service. To prove it, we're guaranteeing this rate until January 1st, 2004. This great new rate is one of our lowest prices ever for unlimited local calling from home in Michigan. To make it even better, we'll also give you a $25 credit on your first month's bill if you sign up by December 31st 2002†. And don't forget that Caller ID plus two other features are included‡. For our customers who already have our Call Plan 400 or Call Plan Unlimited, you'll be automatically upgraded to this new plan. Is this a great deal, or what?

- 3 CALLING FEATURES
- GUARANTEED RATE UNTIL JANUARY 1, 2004
- ONE OF AT&T'S LOWEST UNLIMITED LOCAL RATES EVER
- $25 BILL CREDIT

CALL 1 888-888-7650
OR VISIT WWW.ATT.COM/HOME

AT&T Consumer

*AT&T Local Service not available in all areas. A per line access fee for local service (FCC Line Charge), Universal Connectivity Charge and other state charges apply. Must enroll by 12/31/02 to get price guarantee. Subject to current law.
†The $25 bill credit is applied on first full month's service and cannot be combined with any other AT&T Local Service promotion. You must be a residential long distance subscriber. Offer expires 12/31/02. If you've recently accepted another offer to switch to AT&T Local Service, we can fulfill only on the first response received.
‡Caller ID equipment required. Some features not available in all areas and may not be compatible with each other.

SIGN UP FOR AT&T LOCAL SERVICE.

Save $25 in the first month.

IMPORTANT ACCOUNT INFORMATION:
[redacted]
Northville, MI 48167-2323

NOV 1 5 2002

$25
BILL CREDIT

[redacted],

Now we'll give you a $25 bill credit in the first full month* when you sign up for unlimited local calling at our lowest price ever — guaranteed until January 1, 2004.' Just add AT&T Local Service to the AT&T Long Distance Service you already have, then make as many calls as you like.

Along with unlimited local calling, you'll get the features you want.

AT&T Local Service includes Caller ID with Name and your choice of two other calling features,' all for just $31.00 a month.** Available features include: >> Call Waiting >> Three-Way Calling >> Call Return >> Call Forwarding >> Speed Dialing 8.

GET IT ALL TOGETHER
WITH
AT&T:

- **$25 bill credit** in your first full month
- **Unlimited local calling** from home

Of course, we offer other local plans, too — just ask the AT&T representative when you call.

Sign up today for AT&T Local Service with a $25 bill credit.

Call **1 800 321-8051 and ask for extension 31086** to receive your $25 bill credit when you sign up. Or, if you prefer, visit us at att.com/home. Don't miss out on everything AT&T has to offer!

Sincerely,

Michelle Richardson

Michelle Richardson
AT&T Local Service

P.S. Want an even better value? We can now expand your local calling area to include unlimited local toll calls. Call for more information about AT&T's expanded local offers today!

- **Three calling features** you can really use
- **Monthly rate guaranteed** until January 1, 2004
- **One bill,** one company, and one number to call

All for just $31.00 a month.

AT&T

Call 1 800 321-8051 and ask for extension 31086, today.

* *The $25 bill credit is applied on first full month's service and applies only to local service with feature package* The bill credit cannot be combined with any other AT&T Local Service promotion You must be an AT&T Residential Long Distance subscriber Offer expires 12/31/02

† Enroll by 12/31/02 to receive the $31 00 price guarantee until 1/1/04. Subject to current law

‡ All features may not be available in all areas. and some features may not be compatible with each other Caller ID equipment is required

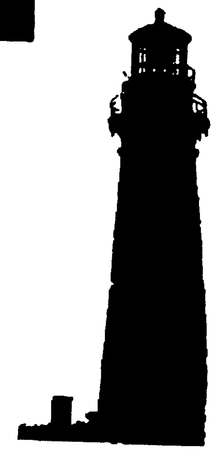
** A per line access fee for local service (FCC Line Charge). Universal Connectivity Charge, and other charges apply AT&T Local Service is not available in all areas For residential customers only.

RIGHT NOW℠

H-A-0664015
MIBCB10-02

LOCAL AND LONG DISTANCE.TOGETHER℠

AT&T



IMPORTANT ACCOUNT INFORMATION:

[redacted]

Burtchville MI 48059-4335

Your first month of local is FREE when you sign up for AT&T Local Service today.
1 800 321-8051, ext. 24841

NEW – AT&T LOCAL SERVICE.

A BETTER CHOICE IN MORE WAYS THAN ONE.

[redacted]:

People choose AT&T Local Service for lots of reasons but now there's one everybody can agree on: unlimited local calling at a new low price. So you can keep in touch with friends and neighbors as often as you like. And right now, the first month of local service is free.*

Let's take a closer look at what this new local calling plan has to offer.

Unlimited local calling and three great calling features.

Along with unlimited local calling, you'll get Caller ID† with Name plus your choice of two additional calling features to make AT&T Local Service even more convenient. Pick any two of the following features:

- Call Waiting
- Three-Way Calling
- Call Return
- Call Forwarding
- Speed Dialing 8

You'll also get 7¢-a-minute local toll and long distance calling morning, noon, and night.

Sign up for AT&T Local Service now and you'll get a low long distance rate of just 7¢ a minute on your local toll, in-state, and state-to-state calls from home. 24 hours a day, 7 days a week, with AT&T Local One Rate Plus.℠ That's right — for a monthly fee of only $34.95,‡ you'll get reliable local service with features and long distance in one convenient package.

The new, better choice for local service: AT&T.

Unlimited local calling, three great calling features, a 7¢-a-minute long distance rate, all for a great low price, with the first month of local service free. Join the many satisfied AT&T Local Service customers who depend on us for calls closer to home.

AT&T has the right plan for you.

The plan I've just described is only one of several that we offer. We'll be happy to help you select the plan that works best for you. So call us at 1 800 321-8051, ext. 24841, 8 a.m.–10 p.m. ET Monday–Friday; 8 a.m.–8 p.m. ET Saturday and sign up today.

Sincerely,

Michelle Richardson

Michelle Richardson
AT&T Local Service

Sign up for AT&T Local Service and you'll get:

- **Your first month of local service FREE**
- **Unlimited local calling from home**
- **Three great calling features**
- **7¢ a minute on local toll and long distance calls from home**
- **All on one bill for just $34.95 a month**

Call 1 800 321-8051, ext. 24841, today.

AT&T

Local and Long Distance Together℠

* [illegible] Offer expires [illegible] /02
† Caller ID [illegible] required.
‡ [illegible] Universal Connectivity Charge [illegible]

SEP 06 2002 14:49 FR AMERITECH 4R498 [redacted] P.54/54

LOCAL AND LONG DISTANCE TOGETHER℠

AT&T

IMPORTANT ACCOUNT INFORMATION:

[redacted]
Livonia, MI 48152-2772

Your first month of local is FREE when you sign up for AT&T Local Service today.
1 800 321-8051, ext. 24841

NEW – AT&T LOCAL SERVICE.

A BETTER CHOICE IN MORE WAYS THAN ONE.

[redacted]

People choose AT&T Local Service for lots of reasons, but now there's one everybody can agree on: unlimited local calling at a new, low price. So you can keep in touch with friends and neighbors as often as you like. And right now, the first month of local service is free.*

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- Three-Way Calling
- Call Return
- Call Forwarding
- Speed Dialing 8

You'll also get 7¢-a-minute local toll and long distance calling morning, noon, and night.

Sign up for AT&T Local Service now and you'll get a low long distance rate of just 7¢ a minute on your local toll, in-state, and state-to-state calls from home, 24 hours a day, 7 days a week, with AT&T Local One Rate Plus.℠ That's right — for a monthly fee of only $34.95,‡ you'll get reliable local service with features and long distance in one convenient package.

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Unlimited local calling...three great calling features...a 7¢-a-minute long distance rate...all for a great low price, with the first month of local service free. Join the many satisfied AT&T Local Service customers who depend on us for calls closer to home.

AT&T has the right plan for you.

The plan I've just described is only one of several that we offer; we'll be happy to help you select the plan that works best for you. So call us at 1 800 321-8051, ext. 24841, 8 a.m.–10 p.m. ET Monday–Friday; 8 a.m.–8 p.m. ET Saturday and sign up today.

Sincerely,

Michelle Richardson

Michelle Richardson
AT&T Local Service

Sign up for
AT&T Local Service
and you'll get:

- **Your first month of local service FREE**
- **Unlimited local calling from home**
- **Three great calling features**
- **7¢ a minute on local toll and long distance calls from home**
- **All on one bill for just $34.95 a month**

**Call
1 800 321-8051,
ext. 24841, today.**

AT&T

Local and Long Distance Together℠

* This $31 bill credit applies to the first full month of local service, cannot be combined with any other AT&T Local Service promotion, and applies only to local service with feature packages on your primary line. Offer expires 12/31/02.
† Caller ID equipment is required.
‡ A per-line access fee for local service (FCC Line Charge), Universal Connectivity Charge of $0.[illegible] per line and an 11% charge on state-to-state and international calls, and other charges apply. Local offer is not available in all areas. For residential customers only. Subject to billing availability. The $34.95 monthly fee is calculated by combining the $3.95 fee for the specific AT&T domestic long distance calling plan, including local toll service, and the $31.00 fee for AT&T Local Service and features.

77-A-[illegible]

** TOTAL PAGE.54 **

LOCAL AND LONG DISTANCE TOGETHER℠

AT&T

IMPORTANT ACCOUNT INFORMATION:

[redacted]
Saginaw, MI 48603-0001

Your first month of local is FREE when you sign up for AT&T Local Service today.
1 800 321-8051, ext. 24839

NEW – AT&T LOCAL SERVICE.

A BETTER CHOICE IN MORE WAYS THAN ONE.

[redacted]

People choose AT&T Local Service for lots of reasons, but now there's one everybody can agree on: unlimited local calling at a new, low price. So you can keep in touch with friends and neighbors as often as you like. And right now, the first month of local service is free.*

Let's take a closer look at what this new local calling plan has to offer.

Unlimited local calling and three great calling features.

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- Call Waiting
- Three-Way Calling
- Call Return
- Call Forwarding
- Speed Dialing 8

You'll also get 7¢-a-minute local toll and long distance calling morning, noon, and night.

Sign up for AT&T Local Service now and you'll get a low long distance rate of just 7¢ a minute on your local toll, in-state, and state-to-state calls from home, 24 hours a day, 7 days a week, with AT&T Local One Rate Plus.℠ That's right — for a monthly fee of only $34.95,§ you'll get reliable local service with features and long distance in one convenient package.

The new, better choice for local service: AT&T.

Unlimited local calling...three great calling features...a 7¢-a-minute long distance rate...all for a great low price, with the first month of local service free. Join the many satisfied AT&T Local Service customers who depend on us for calls closer to home.

Just call us at **1 800 321-8051, ext. 24839, 8 a.m.–10 p.m.** ET Monday–Friday; 8 a.m.–8 p.m. ET Saturday, and sign up today.

Sincerely,

Michelle Richardson

Michelle Richardson
AT&T Local Service

P.S. We offer a variety of other calling plans, too, so that you can choose the one that's best for your particular calling needs. Just call us and we'll be happy to help you make a selection.

Sign up for AT&T Local Service and you'll get:

- **Your first month of local service FREE** *
- **Unlimited local calling from home**
- **Three great calling features**
- **7¢ a minute on local toll and long distance calls from home**
- **All on one bill for just $34.95 a month**

Call 1 800 321-8051, ext. 24839, today.

AT&T

Local and Long Distance Together℠

* This $31 bill credit applies to the first full month of local service, cannot be combined with any other AT&T Local Service promotion and applies only to local service with feature packages on your primary line. Offer expires 12/31/02.
† Caller ID equipment is required.
§ A per-line access fee for local service (FCC Line Charge), Universal Connectivity Charge of $0.40 per line and an 11% charge on state-to-state and international calls, and other charges apply. Local offer is not available in all areas. For residential customers only. Subject to billing availability. The $34.95 monthly fee is calculated by combining the $3.95 fee for the specific AT&T domestic long distance calling plan, including local toll service, and the $31.00 fee for AT&T Local Service and features.

AT&T

$25 Bill Credit

n your first month when you sign up for

AT&T LOCAL SERVICE.

CALL

1 800 321-8051,

ext. 27328.

IMPORTANT ACCOUNT INFORMATION:

[redacted]

Detroit, MI 48228-2374

AT&T

Michelle Richardson
AT&T Local Service

[redacted]

As an existing AT&T Long Distance customer, you've already shown that high-quality phone service and solid value are important to you. That's why I'm writing to you now — to invite you to enjoy those same benefits on calls closer to home.

You see, we also offer AT&T Local Service in your area. And since you already trust AT&T to handle your calls around the country, I'd like to suggest that you allow us to handle your calls around town as well. AT&T Local Service would be the perfect complement to the AT&T Long Distance Service you already have, and I think you'll enjoy the simplicity and convenience of having just one phone bill for all your calls and one customer service number for everything.

Let's look at the specifics.

AT&T Local Service now comes with unlimited local calling from home. You'll also get Caller ID with Name, plus your choice of any two of the following calling features*: Call Waiting, Three-Way Calling, Call Return, Call Forwarding, and Speed Dialing 8. All for just $31.00 per month.†

Plus now there's another great reason to sign up for AT&T Local Service: When you do, we'll give you a $25 bill credit in your first full month of service.‡

I hope you'll agree that these are great reasons to sign up for AT&T Local Service today. And I invite you to do just that. It's easy — simply call 1 800 321-8051, ext. 27328, or visit us at att.com/home, we'll take care of the rest.

Sincerely,

Michelle Richardson

Michelle Richardson
AT&T Local Service

* All features may not be available in all areas and some features may not work together. Caller ID equipment is required if you choose Caller ID.
† A per-line access fee for local service (FCC Line Charge), Universal Connectivity Charge, and other charges apply. AT&T Local Service is not available in all areas. For residential customers only.
‡ The $25 bill credit is applied on first full-month's service and applies only to local service with feature package. The bill credit cannot be combined with any other AT&T Local Service promotion. You must be a residential long distance subscriber. Offer expires 12/31/02.

AT&T

$25 Bill Credit

in your first month when you sign up for

AT&T LOCAL SERVICE.

CALL

1 800 321-8051,

ext. 27328.

IMPORTANT ACCOUNT INFORMATION:

Livonia, MI 48150-2955

AT&T

Michelle Richardson
AT&T Local Service

Dear

As an existing AT&T Long Distance customer, you've already shown that high-quality phone service and solid value are important to you. That's why I'm writing to you now — to invite you to enjoy those same benefits on calls closer to home.

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CALL 1 [illegible] FOR YOUR CHECK CODE BEFORE CASHING YOUR CHECK.

WRITE YOUR CODE HERE

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Issue Date. 8/16/02

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Check Amount

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[redacted]

Carsonville, MI 48419-9458

Edward M. Dwyer

AUTHORIZED SIGNATURE

Citizens State Bank, Clara City, MN 56222

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The all-in-one phone service that has all of Michigan **talking.**

[redacted]

Ever wish you could make life a little bit simpler? Most people do. And now that AT&T offers all-in-one phone service in Michigan, you can — with one simple phone call.

Just call and switch to AT&T Residential Local, Local Toll, and Long Distance Services. You'll have the convenience of a single bill each month. One simple, low rate all the time for your domestic long distance and local toll calls from home. One customer service number for everything. And by joining the other Michigan residents who are switching to AT&T, you'll have a $40 check to cash and enjoy any way you please.

*Look at all you get for a monthly plan fee of just $34.95 a month.**

No wonder everyone's talking. Here's what's included:

- Unlimited local calling from home
- Caller ID with Name and your choice of two other calling features† such as Call Waiting, *Call Forward, or Three-Way Calling*
- 7¢ a minute for calls from home beyond your local calling area

Of course, if you'd prefer a different combination of services, just let us know and we'll tailor a package to your specific calling needs.

Remember, once you call 1 800 326-2405, ext. 20798, and switch to AT&T, this $40 check is yours to cash. So don't just talk about it — call today. And make life just a little simpler from now on.

Sincerely,

Gina Grossmann

Gina Grossmann
AT&T Marketing Manager

P.S. Our check offer expires soon. Be sure to call 1 800 326-2405, ext. 20798, before 9/15/02 to take full advantage of ALL the benefits AT&T has to offer. And don't forget to ask about our voicemail service, too!

One company, one bill for local and long distance

Unlimited local calling with 3 calling features

7¢ a minute for all calls outside your local calling area

A $40 check, yours to spend as you like

CALL 1 800 326-2405, ext. 20798.

* For residential customers only. AT&T Local Service not available in all areas. A per-line access fee for local service (FCC Line Charge), Universal Connectivity Charges on local, [illegible], and international calls, and other charges apply. For more details about these charges, please call 1 800 326-2405, ext. 20798. The $34.95 monthly fee is calculated by combining the $[illegible] fee for the specific AT&T domestic long distance calling plan with local toll service and the $[illegible] fee for AT&T Local Service. Subject to billing availability. To complete your order for AT&T Local Service, you must call our toll-free number and speak to an AT&T representative to order local service, indicate the local calling features you wish to receive, and your local directory listing.

† Caller ID equipment required. Features are not available in all areas. Some features may not be compatible with each other.

Please see important information on the back.

AT&T Consumer

Get a FREE Month

with AT&T Local Service!

Recently, we sent you a letter offering to waive the monthly recurring charge for the **first full month of local service** just for choosing AT&T Local Service.* If you've already responded, thanks. You've made a smart choice. If not, please call today. This is a great offer, and there's never been a better time to sign up.

Call today!
1 800 321-8051,
ext. 20000

* This bill credit cannot be combined with any other AT&T Local Service promotion, applies only to local service with feature packages on your primary line, and expires 12/31/02. Other terms and conditions apply. MIWFM-4/02

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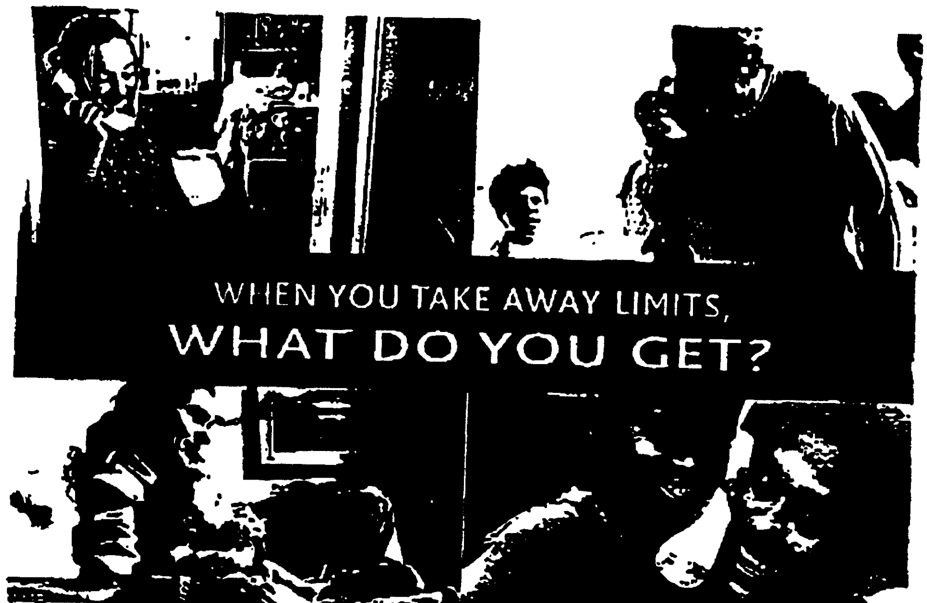

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BECAUSE TIME DOESN'T MATTER. PEOPLE DO.

Don't wait any longer. Take the limits off your most important connections — with the long distance plan that lets you talk as long and as often as you like. Sign up now for AT&T Unlimited, and you can:

- Call all you want, anytime, from your home phone to any AT&T Residential Long Distance customer — *no matter what plan they're on.*
- Talk longer to those you love. When minutes don't count, you never need to watch the clock or think twice about calling.
- One low monthly fee of $19.95* covers your local toll, state-to-state, and in-state long distance calls to AT&T Residential Long Distance customers. Calls to anyone else are just 7¢ a minute.

Start taking more time for the most important connections in your life.

SIGN UP TODAY.

CALL: 1 800 378-8584, EXT. 22649
OR VISIT: www.att.com/unlimited81

* Residential customers, direct-dialed calls only. Unlimited calling excludes calls to wireless phones and many AT&T Broadband customers. Universal Connectivity Charge applies. Additional in-State fees may apply. Subject to billing availability. No call details for calls covered by the AT&T Unlimited Plan.

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[redacted]
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* AT&T Local Service is not available in all areas. For residential customers only.
† This bill credit applies to the first full month of local service, cannot be combined with any other AT&T Local Service promotion, and applies only to local service with feature packages on your

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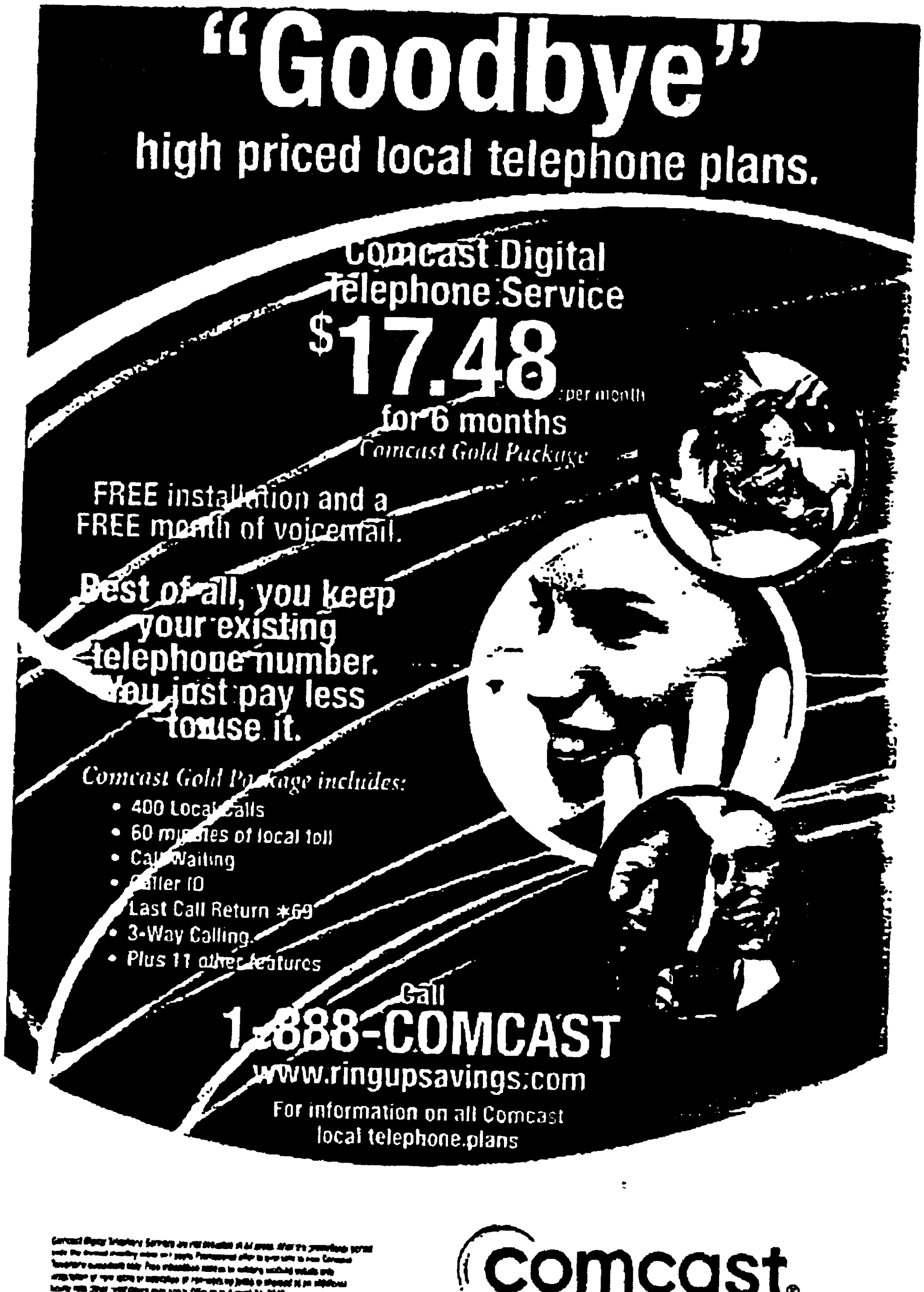

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Surf the Web up to twice as fast as DSL!†

▸▸▸ Always On
Cable-powered, so there's no dialing up, no waiting. You're always connected.

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With up to 7 e-mail addresses per account, everyone in the family gets their own.

▸▸▸ Online File Storage
Free up your computer. Store video, audio, and photo files online with My File Locker.

▸▸▸ Better Value
Less than the cost of dial-up plus a second phone line.

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$19.95 per month for 3 months*

As low as $39.95 per month after that

1.888.COMCAST   comcast.com

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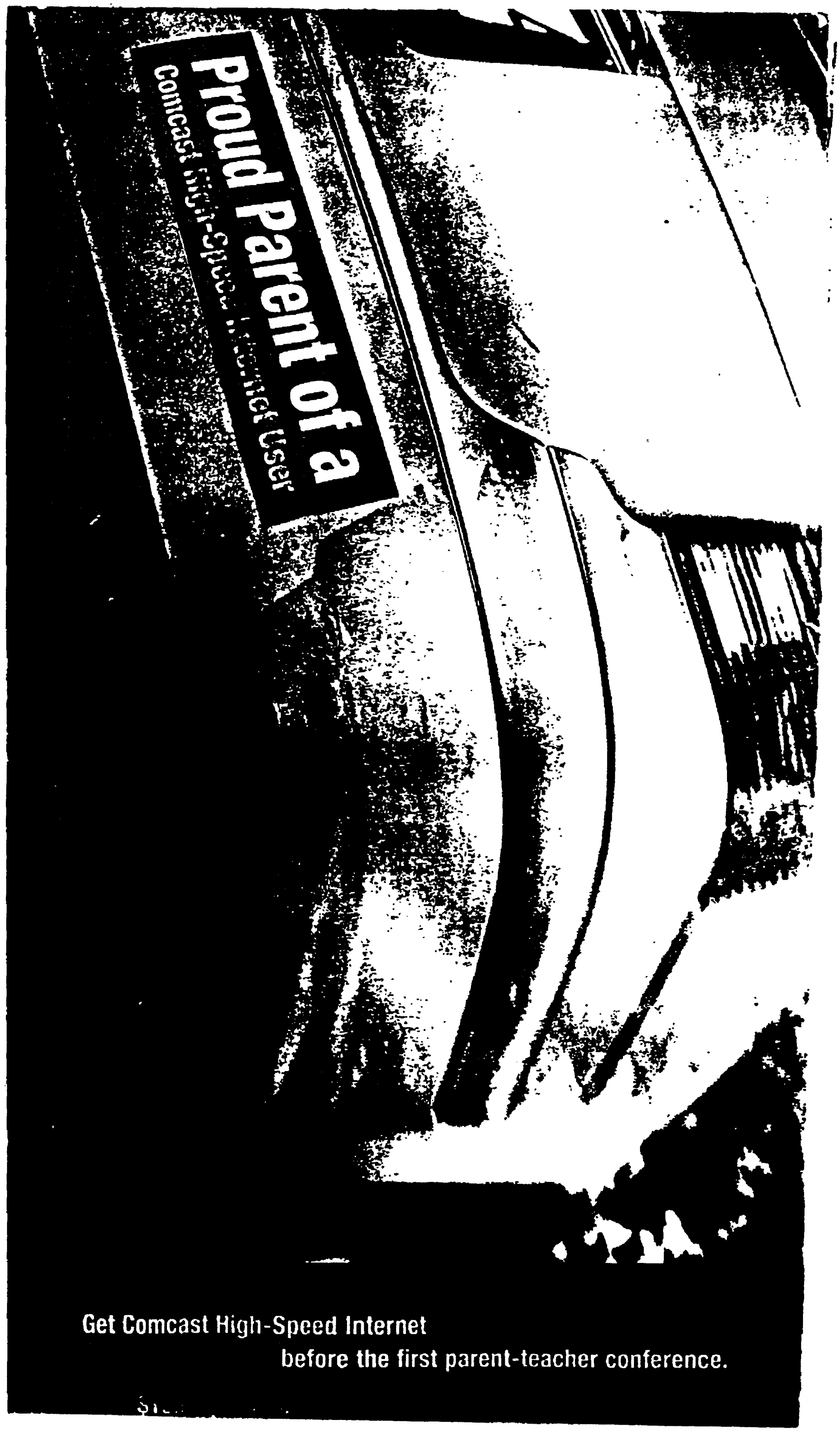
† Speed comparison is for downloads only and is compared to 640Kbps DSL. Maximum upstream speed: 128Kbps. Actual speeds may vary and are not guaranteed. Many factors affect download speed. Ask about speed when you call or visit www.comcast.com. Not available in all locations. For questions, minimum requirements, and complete details about service and prices, call 1.888.COMCAST.

* Receive first 3 months of Comcast High-Speed Internet for $19.95 per month after service activation. Offer may not include equipment charges. Non-Comcast retail offers may vary. After promotional period, regular monthly rate of $39.95/month for Comcast Cable customers and equipment charges apply. Rates vary for non-Comcast cable subscribers. Other applicable taxes are additional. May not be combined with any other offer. Self-Install Kit requires customer installation and may not be available in all areas. Shipping and handling charge of $9.95 will be applied for Self-Install Kit. Professional standard installation is available at a discounted rate and is required for non-cable customers. Professional standard installation may be necessary in some areas and regular rates may vary according to your service area. Service is not available in all areas. Limited time offer expires 9/30/02. Offer available to new residential customers located in Comcast Cable wired and serviceable areas only. Comcast High-Speed Internet service subject to terms and conditions of Comcast Online Subscriber Agreement.



Proud Parent of a
Get Comcast High-Speed Internet
before the first parent-teacher conference.

With Comcast High-Speed Internet, kids get more out of the Web so they can put more into their schoolwork. It puts thousands of educational resources within reach — instantly. And it's **up to twice as fast as DSL!** so kids spend less time waiting and more time working, researching, and learning.

There's plenty for grown-ups, too. Chat with friends and family instantly. Bank, shop, and bid online faster than ever. Quickly download your favorite music and streaming video of news and sports. And you won't have to put the rest of your life on hold to do it. Comcast High-Speed Internet is **cable-powered, no phone line needed,** so your family can talk on the phone, watch TV, and surf the Web all at once.

Comcast Back To School Sweepstakes Official Rules

NO PURCHASE NECESSARY TO ENTER OR WIN.
A PURCHASE WILL NOT IMPROVE YOUR CHANCES OF WINNING.

SWEEPSTAKES BEGINS AT 12 01 AM PACIFIC TIME (PT) ON 7/15/02 AND ENDS AT 11 59 PM (PT) ON 9/30/02 SWEEPSTAKES OPEN TO LEGAL RESIDENTS OF THE 50 UNITED STATES AND THE DISTRICT OF COLUMBIA AGE 13 AND OLDER AT TIME OF ENTRY.

There are two ways to enter Method #1 Online Visit www.comcastcontest.com, follow all instructions and complete the online entry form Online entries must be received by 11 59 PM (PT) on 9/30/02 Method #2 By Mail Handprint your name, address phone and e mail address (optional) and mail to Comcast Back To School Sweepstakes, PO Box 9249, Medford, NY 11763-9249 Mail-in entries must be postmarked by 9/30/02 and received by 10/7/02 Incomplete entries will not be eligible for the sweepstakes drawing Limit One entry per e mail address *Online entries will be deemed made by the authorized account holder of the e mail address submitted at time of entry The authorized account holder is deemed as the natural person who is assigned to an e-mail address by an Internet access provider, service provider or other organization that is responsible for assigning e-mail addresses or the domain associated with the submitted e-mail address. Use of automated devices not valid for entry. No mechanical reproductions permitted. Photocopied or incomplete entries are void. Sponsor is not responsible for lost, late, misdirected, damaged, illegible or postage due mail/entries.

CONSUMER DISCLOSURES: No purchase necessary. You have not yet won. Prizes and their approximate retail values (ARV)· 1 Grand Prize: $25,000 (face value) in U.S. Series EE Savings Bond (Current Value: $12,500, face value, i.e., value at full maturity $25,000) Full maturity date varies according to prevailing interest rates 1 First Prize Dell Dimension Computer includes: *Pentium 4 Processor at 2.26GHz*, 256MB PC800 RDRAM and 40 GB Ultra ATA/100 hard drive, 24x/10x/40x CD-RW drive with Roxio's Easy CD Creator,* 19" monitor, keyboard, speakers, Microsoft Small Business Office and printer (ARV· $2,500.00). 1 Second Prize· Sony SRX87 VAIO* Notebook includes low voltage mobile Intel* Pentium* III processor *850MHz-M, 10 4"* XGA (1024 X 768) TFT display, 256MB SDRAM, 20 GB hard drive, External i LINK* *DVD/CD-ROM drive, Memory Stick* Media Slot*, Integrated V.90 modem and 10/100 Ethernet, Microsoft* Windows* XP Home Edition and Lithium-ion battery (ARV· $1,700 00). 5 Third Prizes. Pair of Internet D-LinkAir DCS-1000W Web Cameras includes web-based remote access, integrated web server, IEEE 802 11b wireless and 802 3/3u Ethernet, I/O ports for add-on infrared and/or motion sensors and e mail notification (ARV $534 00 each) & *300 Fourth Prizes Time Archive 3-Month* Pass (ARV $18 00 each) Total ARV of all prizes guaranteed to be awarded $37,270 00 *Prizes are not transferable or redeemable for cash Limit one prize per* household Savings bond subject to the cash redemption terms specified by the U S *Government for Series EE Savings Bonds* Time 3 Month Archive Pass is valid for 90 days from date of activation 24 hours/7 days a week and must be activated within 2 years of winning it No refunds for any unused portion of pass and winner must agree to all terms in end user licensing agreement Odds of winning determined by total number of entries received, estimated at 1 440,000 for a Grand, First and Second Prize, 1:88,000 for a Third Prize and 1·1,467 *for a Fourth Prize Sponsor: Comcast Cable* Communications of Pennsylvania, Inc., 1500 Market Street, Philadelphia, PA 19102.

Sponsor reserves the right to substitute a prize with one of equal or greater value in the event a prize is unavailable. Winners are responsible for all taxes on prize. By participating in this sweepstakes all participants agree that a prize is awarded upon the condition that the Sponsor and their respective agencies or employees will have no liability whatsoever for any injuries, losses or damages of any kind resulting from the acceptance, possession or use of a prize The Sponsor does not make, nor in any manner will be responsible for, any warranty, representation or guarantee relating to each prize, provided, however, each prize will be subject to the manufacturer's standard warranty Random drawings to award prizes will be *conducted on or about* 10/15/02 under the supervision of an independent judging organization whose *decisions are final and binding* in all matters related to the sweepstakes Winners will be notified by mail and may be required to sign and return an Affidavit of Eligibility/Liability/Publicity Release within 14 days of date printed on notification or he/she will be disqualified Any prize or prize notification returned as undeliverable will result in disqualification, and the corresponding prize will be awarded to an alternate winner *in a separate random drawing Prizes awarded* within 30 days after prize verifications Acceptance of prize constitutes permission (except where prohibited by law) to use each winner's name prize won, voice hometown and likeness for purposes of advertising, trade promotion, online posting, and publicity without additional compensation

Employees of the Sponsor its parent company, affiliates, subsidiaries, advertising, promotion and production agencies, and the immediate families of each are not eligible to enter or win All federal, state and local laws and regulations apply Void where *prohibited by law Sweepstakes is governed* by US Law

For a list of winners (available after 11/30/02) send self-addressed, stamped envelope by 9/30/02 to. Comcast Back To School Sweepstakes Winners, P. O. Box 9144, Medford, NY 11763-9144.

By entering you agree to receive future sweepstakes promotions & advertising by mail or e-mail from the Sponsor. *To be removed from these mailings or e-mail lists* write to· Comcast Online Services, 1500 Market Street, Philadelphia, PA 19102-2148 or by sending an e-mail to the Sponsor at: www.comcastonline.com/contactus.asp.

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And...did you know, with that choice, you could be saving over $200 a year?*

It's true! CoreComm local phone service is now available in Michigan with a wide variety of the same services and features you currently have from Ameritech and more! ***And for a limited time, CoreComm will offer you two months FREE*! (An $89.90 value)***

Save over $200 per year when you choose CoreComm's Unlimited Premium package today!

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Unlimited Internet	included	$21.95
100 minutes long distance	included	$ 8.00
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You save over $200/yr!

Sign up today for CoreComm Unlimited Premium – only $44.95 per month!

Why pay more? You'll get the same services and features you're accustomed to, one low bill, our extraordinary customer care and an annual savings of over $200! **You're going to love the extra savings! You're going to love your new local phone company! What are you waiting for? Contact CoreComm today!**

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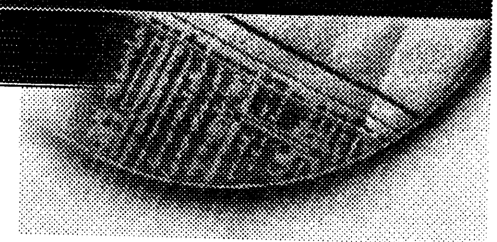
Visit **www.offers.core.com/lmi** or call **1-800-272-5586**

To qualify for this special offer mention PROMO CODE DMLE10502 when ordering.



What's New/Press

3/28/2002 : LDMI ANNOUNCES GROWTH MILESTONES

Company Posts Four Consecutive EBITDA Positive Quarters; 50,000 Local Phone Lines Turned Up; Bank Debt Restructured

HAMTRAMCK, MI, MARCH 28, 2002 –LDMI Telecommunications announced today a series of growth milestones, including the activation of its 50,000th local phone service line, making the company the leading local phone alternative for businesses in Michigan.

The announcement was made by LDMI Telecommunications Chief Executive Officer Patrick O'Leary.

The largest telecommunications company based in Michigan, LDMI serves more than 60,000 customers – primarily businesses – throughout the State. It rolled out local phone service less than fourteen months ago, offering features such as automatic callback, caller ID, call forwarding, call waiting, conference calling, voice mail, and more. The company also provides long distance phone service, high-speed Internet connectivity, and security and hosting services.

Michigan has approximately 2,900,000 local business phone lines, approximately 95 percent of which are still serviced by SBC/Ameritech. LDMI has been a Michigan leader, working with the Michigan Public Service Commission, in efforts to drive down the cost of telecommunications service in the state, while eliminating barriers to true competition.

Additionally, Mr. O'Leary announced the Company has secured a new, senior debt facility with CapitalSource of Chevy Chase, Md. The facility replaces previous bank debt and is capped at $30 million. CapitalSource Finance LLC is a leading commercial finance company providing senior and mezzanine financing to middle market growth oriented companies like LDMI.

CapitalSource Managing Director, Corporate Finance Joseph A. Kenary, Jr. said, "Throughout the turmoil of the telecom sector, over the past year LDMI has demonstrated consistent growth in its core business by providing superior service and competitive prices. We believe that LDMI is poised to prosper as the entire industry regains its footing."

Commenting on the announcements, Mr. O'Leary said, "We are very pleased with our growth rate, especially against the backdrop of a tight economy and difficult times in the telecom sector. With four consecutive EBITDA positive quarters and a more attractive debt arrangement, we are well positioned to emerge from the downturn with even more momentum."

LDMI Telecommunications is an integrated communications provider serving primarily business customers in the Great Lakes region. Its services include local and long distance phone service, and data services such as high-speed connectivity, security, hosting, and professional network services. The company is the long distance carrier for approximately ten percent of the small and medium-sized businesses in Michigan. Founded in 1992, the Company services more than 80,000 customers in the Midwest, and has been named one of the Top Ten Privately Held Michigan Businesses for 3 consecutive years.

MICHIGAN

New Rates for Payphone Service Providers

Who Sign Up With

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Mpower Communications, Inc.
(Formerly MGC Communications, Inc.)

Data Net Systems has added Another Choice for Local Telephone Service.

Introducing Mpower's New Low Rates

PSPs in Michigan can now get $25.00 Flat Rate Pricing in Access areas "A", "B" and "C".

Free Conversions from your current Carrier.

No Presubscribed Interexchange Carrier(PIC) Charges.

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No Fees to Data Net Systems.

Additional Charges

EUCL:	$5.18 (Mpower's policy is to mirror the ILEC's EUCL)
Taxes:	Taxes Vary depending on location and customer's tax status.
New Installs:	$35.00 Service Order Charge
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Conversions:	Conversion fees have been waived

For more *information*, please contact Robert O'Brien at 847-808-0288 ext. 109 or See our website at www.dnsys.com and view Mpower Information.

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Who is Sage? Sage Telecom is a new kind of telephone company, formed by people with years of experience in telecommunications and certified by the Michigan Public Service Commission to provide local telephone service throughout the state. We serve over 400,000 residential and small business customers throughout the country. We're the alternative to the Bell® monopoly, and we're here to offer better value on all your telephone services.

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What's so different about Sage? How about UNLIMITED local telephone service combined with FREE long distance minutes every month? How about all your calling features FREE every month? Sage combines them all – all in ONE simple monthly bill, with ONE lower payment.

Why switch to Sage? It's simply about savings. With Sage's Home Choice Plan you get UNLIMITED local calling with 100 FREE Sage long distance minutes each month – 1+ minutes you can use to call anywhere in Michigan or the U.S. – plus FREE calling features each and every month.

Your telephone number won't change.

What's more, extra long distance calls for Sage customers are only 5 cents a minute. All day long. 365 days a year. And there's no monthly service charge, no contract to sign, no hidden fees.

It costs nothing to switch to Sage Telecom. *Switching to Sage is free and easy* – it takes just a few minutes on the telephone. Just call us during regular business hours Monday– Saturday and we'll take care of everything. Your telephone number won't change and it doesn't cost anything to switch.

About the only change you'll notice is a lower telephone bill every month. So call us today, switch and start saving.

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TELECOM®
Simply about savings.
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www.sagetelecom.net

Save money on business services, too.

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A new idea in local phone service: savings.

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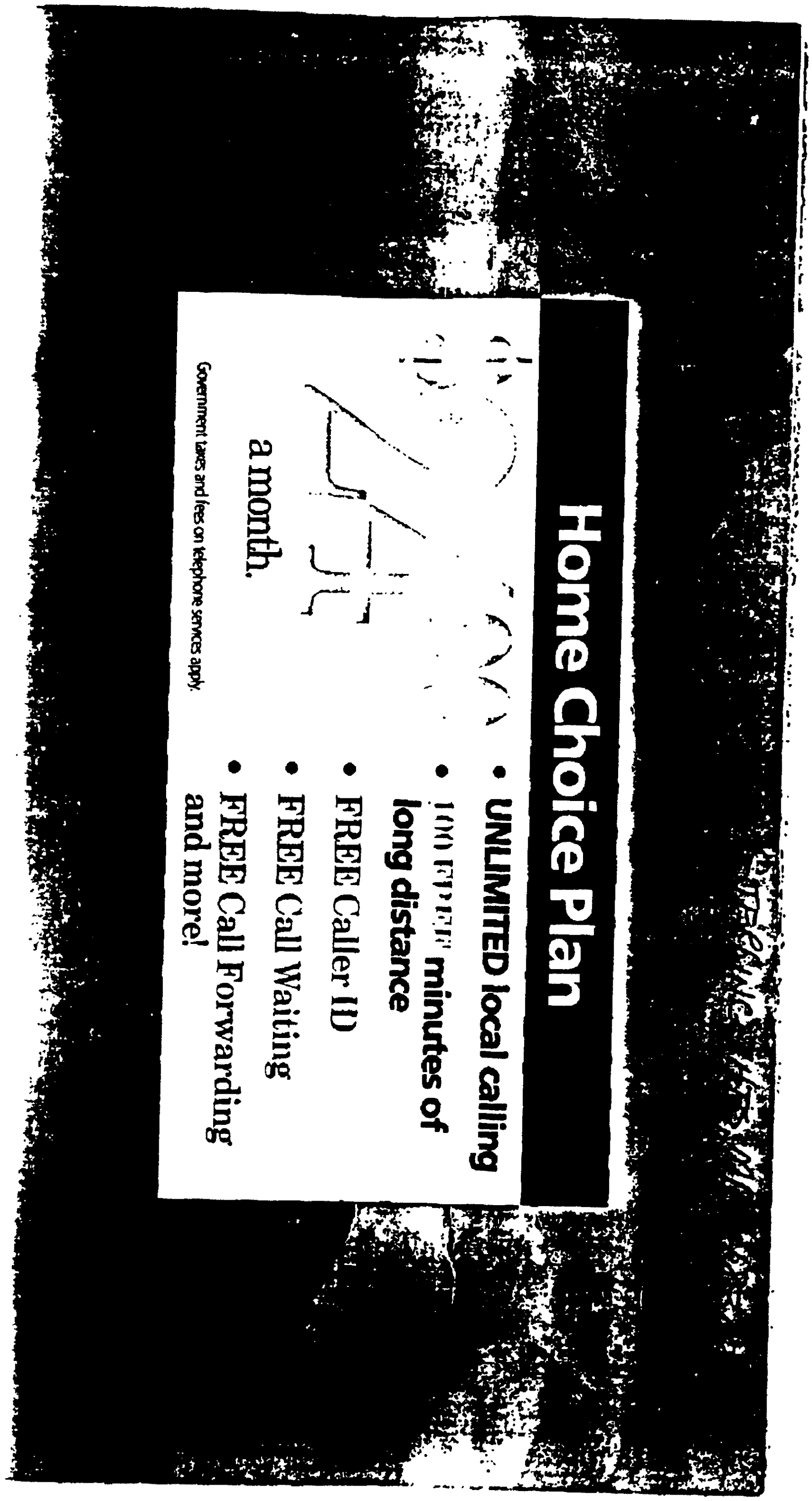
Talk to a respected,
award-winning phone company
that saves you money.
Sage Telecom.
"Best of the bunch." Dallas Business Journal
Rising Star Award Winner 2001


Home Choice Plan
• UNLIMITED local calling
• 100 FREE minutes of long distance
• FREE Caller ID
• FREE Call Waiting
• FREE Call Forwarding and more!
a month.
Government taxes and fees on telephone services apply.


We're Sage Telecom and we're here to give you something you may never have had before: the chance to save money on your local and long distance services.
Who is Sage? Sage Telecom is an award winning telephone company, formed by people with years of experience in telecommunications and certified by the Michigan Public Service Commission to provide local and long distance telephone service throughout the state. We serve over 400,000 residential and small business customers throughout the country. We're the alternative to the monopoly phone company, and we're here to offer better value on ALL your telephone services.
What's so different about Sage? How about UNLIMITED local telephone
month? Sage combines them all – all in ONE simple monthly bill with ONE lower payment.
FIVE 5¢ CENTS
Extra long distance is only 5 cents a minute anywhere in Michigan
Why switch to Sage? It's simply about savings. With Sage's Home Choice Plan you get UNLIMITED local calling with 100 FREE Sage long distance minutes each month – 1+ minutes you can use to call anywhere in Michigan or the U.S. – plus FREE calling features each and every month.
Your telephone number won't change
What's more, extra long distance calls for Sage customers are only 5 cents a minute. All day long. 365 days a year. And there's no monthly service charge, no contract to sign, no hidden fees.
It costs nothing to switch to Sage Telecom.
on the telephone. Just call us
telephone number won't change and it doesn't cost anything to switch.
About the only change you'll notice is a lower telephone bill every month. So call us today, switch and start saving.
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Livonia, MI 48150

Talk America

Local and Long Distance Telephone Service For One Low Rate!

Starting At $19.95 Per Month In Michigan!*

Savings Plans Include:

* Your Basic Local Telephone Service
* Local and/Or Regional Calling Minutes
* Same Selection of Features You Have Today
* 3.9¢ State-to-State Long Distance
* No Installation - No Hassles

click here

Special Offer - For a Limited Time Only!

Unlimited Free Long Distance

Between Talk America Local Bundle Customers - All The Time!

Join hundreds of thousands of satisfied Talk America local bundle customers utilizing our high quality service, low rates and free long distance! Signup online - it takes only minutes!

*Price excludes taxes, surcharges and regulatory charges. See Talk America website for details.

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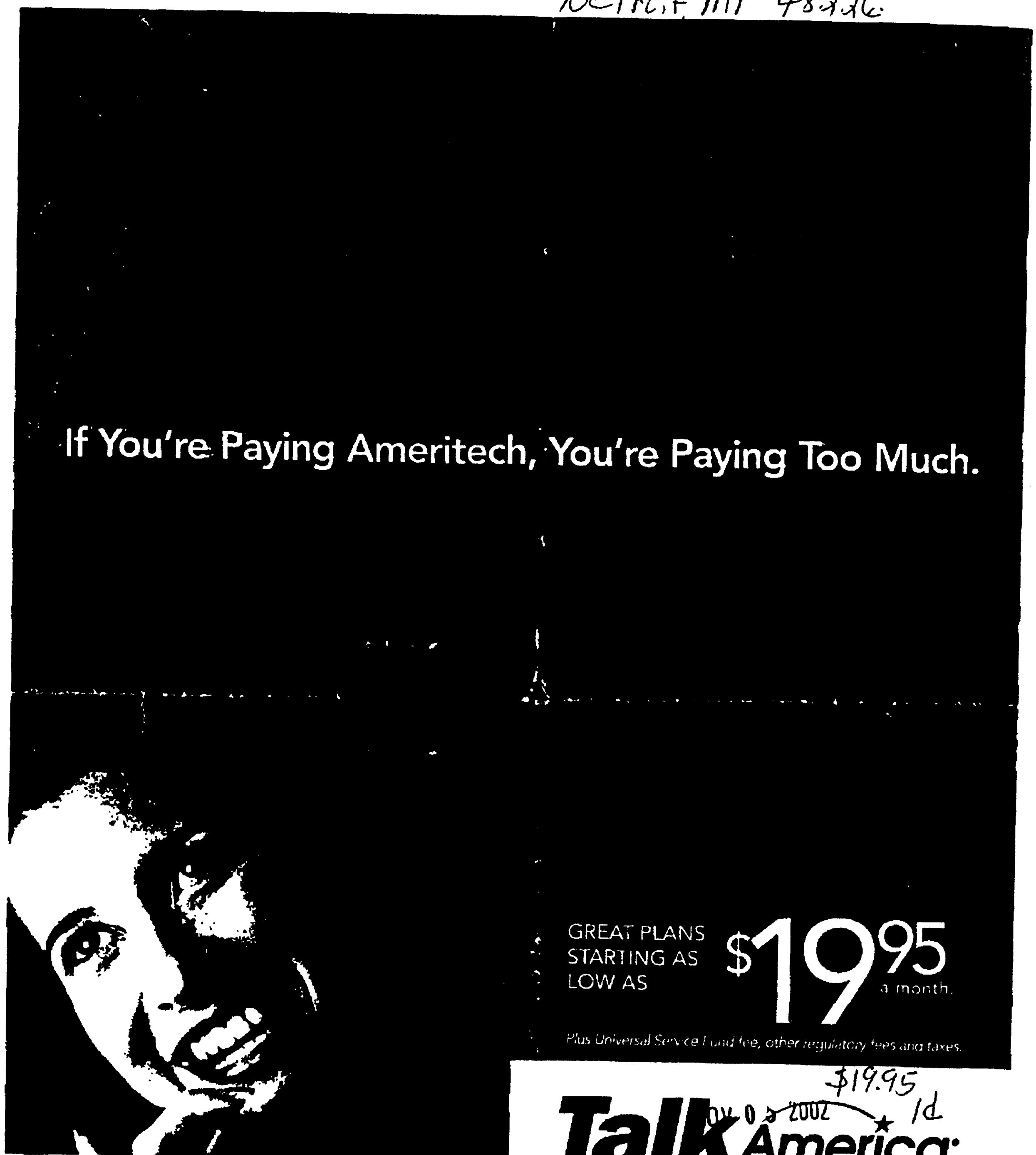

$19.95 1d

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With plans starting as low as $19.95 a month, it's no wonder more than 200,000 Michigan residents have stopped overpaying Ameritech and started saving with Talk America. Call us today to find out how you can save up to 33% on your next local and long distance phone bill.

Hang up on Ameritech NOW and stop overpaying.
For complete details, call us or visit www.talk.com.

1-877-TALK-002

Talk America®

June 14, 2002

Account Number:	0017981268
Account Status:	Preferred Local Upgrade

[redacted]
Port Huron, MI 48060-5616

[redacted]

Congratulations, due to your excellent payment record with Talk America, you have reached Preferred Customer status. As a Preferred Customer, we are pleased to offer you additional savings beyond your long distance service. We invite you to upgrade your service to one of our local and long distance *United Calling Plans.*

Join Over 90,000 Michigan Residents — hang up on Ameritech

That's right, Talk America is providing more than 90,000 Michigan residents complete, full-featured *local* telephone service bundled with our great long distance rate. Like our long distance product, Talk America's local service is unsurpassed in quality, yet priced to give you the best value for your money.

PLUS, Get FREE Long Distance

All Talk America local and long distance bundle customers get FREE long distance calling to each other — up to 1000 minutes each month. Call today, upgrade your account, and find out how those you call the most can sign up too. Soon, you'll be enjoying free calling to each other every month.

Call 1-888-TALK-291 Today to Find the Right Calling Plan

In Michigan, we offer local and long distance bundle plans starting at just *$19.95 a month**. All of our plans include:

- Local calling**
- Calling Features such as Caller ID, Call Waiting, Call Forwarding and more†...
- FREE nationwide long distance calls to other Talk America local and long distance bundle customers – up to 1000 minutes each month.
- 5¢ a minute state-to-state long distance — no minimums, no additional fees
- One monthly bill — simple, clear and easy to understand
- No change in phone number, no interruption in your phone service

Again, we welcome you to Preferred Customer status. Take the time now to call one of our experienced Customer Care representatives at 1-888-TALK-291 (8255-291) and find out how Talk America can help you save over Ameritech rates.

Sincerely,

Edward Meyercord

Edward Meyercord
President
Talk America, Inc.

P.S. Remember — Local Calling Plans start at just $19.95. Call 1-888-TALK-291 (8255-291) now for details.

*Price excludes taxes and regulatory charges, including universal service fund fees, relay and line charges. In some areas such taxes and fees are approximately $14 depending on usage. Service is subject to availability.
** Local usage beyond included minutes will be billed at 1¢ per minute.
† Voicemail not included in features (available at additional $5.95 monthly fee). For complete details, go to www.talk.com

Talk America • 2704 Alternate 19 North • Palm Harbor, FL 34683

Port Huron, MI 48060

Are You Still Overpaying for Home Phone Service?

Now, Get Unlimited Calls in Southeast MI

Local and Long Distance Home Phone service for $34.95 per month*

★ Unlimited local and toll (zone or intraLATA) calls

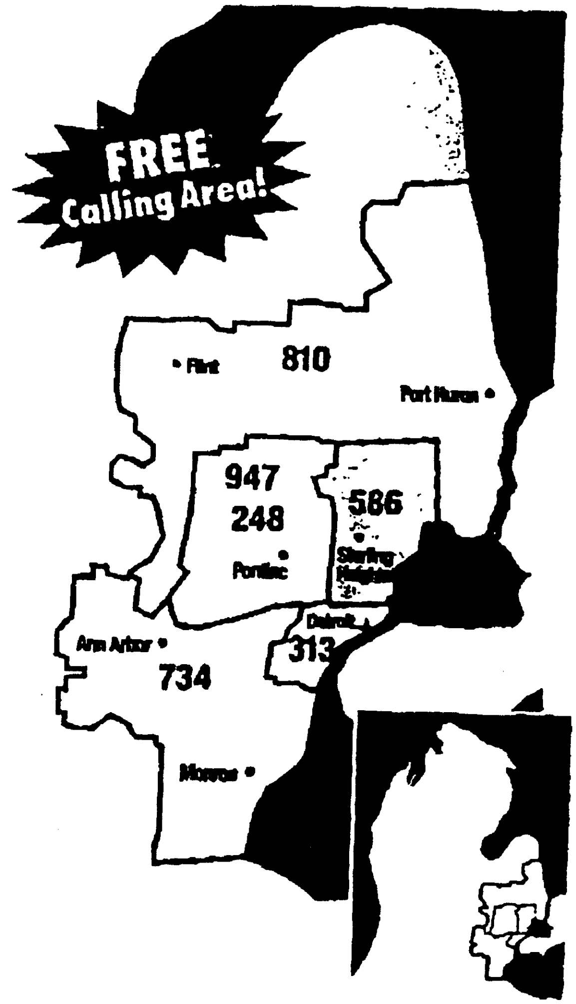
★ Price includes unlimited features such as Call Waiting, Caller ID w/ Name, Three-Way Calling, Call Forwarding, Speed Dialing and much more!†

★ Only 5¢ per minute for all state-to-state calls.

★ FREE long distance calls between Talk America local bundle members. Up to 1000 minutes each month

★ Superior customer service

★ One easy to read bill



No changing phone numbers
No cost to switch
No contracts or obligations
No interruptions in service
No gimmicks or hidden charges

*Price is $39.95 per month in some areas. Ask for details.

Receive unlimited local and toll "zone" calls every month. The area highlighted to the right is the local and toll "zone" (intraLATA) calling area for customers who live within this region. Service is subject to availability

†Voice mail not included in features (available at additional $5.95 monthly fee). Price excludes taxes and regulatory charges such as universal service fund fees and relay charges. For details regarding calling areas outside of S.E. Michigan, pricing, or terms and conditions, contact a Talk America representative, authorized reseller or visit Talk.com.

Talk America

PORT HURON, MI 48060

Frequently Asked Questions

Q: Will my phone number change?
A: No. You keep your same number.

Q: Are there any contracts or term commitments?
A: No, you may remain on the plan as long as you wish

Q: Will I experience any service interruptions when my local service is changed?
A: No, the changeover is invisible.

Q: Will I have the same call quality?
A: Yes, the quality of transmission is the same.

Q: How long does it take to get on the service?
A: It will normally take between 2 to 4 weeks.

Q: Do I have to notify my current provider that I have converted?
A: No, Talk America does that for you.

Q: Will I get a refund from my current local phone company if I've paid in advance?
A: Your current local telephone company will issue a refund check for the portion that you pre-paid and did not use.

Q: Will I be charged for switching my long distance provider?
A: No.

Q: If I have a problem with my line, who do I contact to fix it?
A: Simply call Talk America via 1-866-TEAMTALK and we will take care of it.

Q: Does Talk America offer phone service to businesses?
A: Yes. Our rate plans for businesses are just as competitive as our rates for residential service. For details, contact a Talk America representative or authorized reseller.

Q: How can we do this?
A: In 1996, Congress deregulated the Regional Bell Operating Companies and opened their markets to fair and equal competition. This gives consumers a greater choice in telephone service and forces prices down through competition. Customers will see similar savings to what they saw after the long distance deregulation that took place in 1982.

A Simple Savings Comparison*

Local Service	SBC/Ameritech®	Talk America
Plan Name	Sensible Solution™	United Regional Plus™
Price Per Month	$42.95	$34.95
Local Calls	Unlimited	Unlimited
Local Toll Calls	180 minutes • then 7¢ per min.	**Unlimited**
Call Waiting	Included	Included
Caller ID w/Name	Included	Included
Call Forwarding	Included	Included
3-Way Calling	Included	Included
Call Return *69	Additional	**Included**
Speed Dialing	Additional	**Included**
Repeat Dialing	Additional	**Included**
Long Distance	Sprint®	Talk America
Fee	$5.95 per month	**No Fee**
Out-of-State LD	7¢ per minute	**5¢ per minute**
In-State LD	10¢ per minute	**5.9¢ per minute**
Free LD Between Members	No	**1000 minutes per month**

2 Easy Ways to Enroll!

Free Gift for Mall Enrollment!

Option 1: **Visit one of The Talk Shop locations: Great Lakes Crossing or Lakeside Mall**

Option 2: **Call 1-866-TEAMTALK (832-6825) Reference ID CODE:**

19720

*Price is $39.95 per month in some areas. Ask for details.

*Company comparison based on public information available on June 15th 2002. Local price comparisons based on relevant tariffs. Long Distance comparisons based on Sprint's 7¢ Anytime offer. Price excludes taxes and regulatory charges such as universal service fund fees and relay charges.

... the choice is yours. Talk America

TalkAmerica

HANG UP ON AMERITECH.

Tired of paying too much for Ameritech's local phone service?
Now you can choose to pay up to 21% less with Talk America.

[redacted]

[redacted]
Sterling Hts, MI 48310-4363

SEP 23 2002

[redacted]

I think you'll agree, choice is a good thing.

Unfortunately, until just recently, Michigan residents like you didn't have much of a choice when it came to high quality local and long distance telephone service.

It was the Ameritech phone monopoly or nothing. And boy did they take advantage of that fact by charging you top dollar to talk to friends and family locally and across the country.

Those days are over.

Because now, thanks to changes in Federal and State regulations, choice is back. And to date, over 100,000 Michigan residents have chosen to hang up on Ameritech's high prices and go with Talk America—an aggressive local and long distance service carrier committed to offering low rates and the best service possible.

And we invite you to join them by switching to Talk America today.

Plans start at as little as $19.95 a month.

With Talk America, it's simple to choose a plan that meets your needs—and saves you money. In addition to the savings, you'll also enjoy the convenience of getting just one telephone bill for your long distance and local service. All backed by the most customer-responsive, consistently reliable service in the industry. So choose your plan and make the switch today:

ALL TALK AMERICA UNITED PLANS INCLUDE:

- Free calls to all other Talk America members nationwide, up to 1000 minutes—when they also subscribe to a Talk America local and long distance bundle plan.
- 5¢ a minute state-to-state long distance.
- 5.9¢ a minute in-state long distance within Michigan.

ADDITIONAL ITEMS INCLUDED WITH EACH OF THE FOLLOWING PLANS:

1 UNITED UNLIMITED PLUS PLAN—$34.95

- UNLIMITED FREE local and regional calling.
- Up to 20 FREE calling features such as caller ID, call waiting and more. (over)

002-MI-04775

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2 UNITED UNLIMITED PLAN—$24.95

- UNLIMITED FREE local calling.
- Up to 20 FREE calling features.

3 UNITED 1000 PLAN—$19.95

- 1000 FREE local calling minutes.
- Up to 3 FREE calling features.

Why switch? For starters, check the chart below. A typical Ameritech Sensible Solution™ Plan customer can save up to 21% when they sign up for the same service with Talk America.

SAVE UP TO 21%

That adds up to huge savings over Ameritech—more than $130 a year!

Okay, so what's the catch? There isn't one. Because when you switch to Talk America, you'll be getting high quality local and long distance phone service from one of the nation's fastest growing phone service providers—a company with 10 years of experience and over 200,000 satisfied local customers nationwide.

Typical Customer Profile Comparison Customer Charges Per Month

	Ameritech Sensible Solution™	Talk America United Unlimited Plus Plan
Base Price	$42.95	$34.95
60 min interlata/in-state	$4 80*	$3.54
60 minutes state-to-state long distance	$4 80*	$3 00
Total charges	**$52.55**	**$41.49**
Total savings with Talk America	**$11.06 up to 21% savings**	

*8 cents rate from an alternate long distance carrier. See explantion of price comparison below.

Call 1-877-TALK-503 now

and make the switch to Talk America—absolutely FREE.

Switching to Talk America is easy. Just call 1-877-TALK-503 to sign up completely free of charge. There are no contracts to sign. No complicated forms to fill out. And you can keep your existing phone number. What could be simpler?

So call today and hang up on Ameritech's high rates and customer service hassles. We look forward to adding you to the growing list of 100,000 Michigan residents who have taken advantage of their right to choose big savings and better customer service.

Sincerely,

Edward Meyercord
President, Talk America, Inc.

P.S. Remember, you can talk all you want with Talk America's UNLIMITED FREE LOCAL AND REGIONAL MINUTES. So call to sign up today.

Must have existing phone service. Savings vary based on plan selected, zone, and usage. Ameritech offers a variety of plans some of which may result in lower fees than Ameritech Sensible Solution™ plan listed above. Prices exclude taxes and regulatory charges such as universal service fund charge, state linecharges, and relay charges. Talk America is not affiliated with Ameritech. See www.talk.com for details.

MI10

Livonia, MI 48152

TALK ALL YOU WANT FOR ONE LOW PRICE.

$30 per month*

- **Unlimited Local Calling**
- **250 FREE Long-Distance Minutes per month**
  - Any time, any day.
  - No monthly long-distance fee!
- **Package also includes**
  - Caller ID**
  - Voicemail
  - Automatic Callback (*69)
  - Call Blocking/Anonymous Rejection
  - Three-Way Calling
  - Call Waiting
  - Caller ID on Call Waiting
- **All guaranteed for the entire 2 years of your first service term!**

NEW!

THE TDS METROCOM VALUE UNLIMITED PLAN

This is the single best deal ever offered by any phone company in Michigan. Call around and compare, then call TDS. Switching is fast, easy, and free. Don't wait.

CALL US ON IT.

888-655-4745

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...display unit or phone.

Talk America

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About Talk America

Company

- Overview and History
- Office Locations
- Management
- Board of Directors
- Partners
- Employment Opportunities
- RTC & Tariff Documents
- Contact Talk America

Investor

- Press Room
- Stock Quotes
- Stock Charts
- Fundamentals
- Analyst Estimates
- Annual Reports NEW!
- Quarterly Reports
- SEC Filings
- Analyst Coverage
- Calendar of Events
- E-Mail Alerts
- F.A.Q.
- Contact I.R.

Press Release

Talk America (ticker: TALK, exchange: NASDAQ)
News Release - 18-June-2002

Talk America Offers Greater Choice and Savings in Key Midwestern States

Ameritech's Price Action Underscores Importance of UNE-Platform in Offering Competition in Local Markets

RESTON, Va.--(BUSINESS WIRE)--June 18, 2002-- Talk America (NASDAQ: TALK), an integrated communications provider, today announced greater cost savings and value to its consumers in Michigan through its new United 1000, United 5000 and United Regional Plus service bundles, as compared to Ameritech's new pricing structure which became effective June 17, 2002. In a head-to-head comparison, Talk America's new plans offer price savings of up to 35% to consumers in Michigan.

	Talk America	Ameritech
Base Price	$19.95	$29.95
Inter-LATA/in-state calls	$.059	$.08
1000 minutes Free Member-to-Member Long Distance Calling	Yes	No
Total Charges for Usage and Features	$26.76	$37.45

Based on publicly available prices for Talk America's "United 1000" plan and Ameritech's "Economy Solution" Plan as of June 14, 2002. Savings will vary based on customer usage and plan selection. 1000 free minutes applies to calls to other Talk America local bundle customers. For more details about Talk America's plans go to www.talk.com.

"We applaud every effort to give consumers greater choice and savings in their local markets," said Gabe Battista, Chairman and CEO, Talk America. "While Ameritech has made a significant step with their new price reductions, we believe customers deserve better. Talk America's ability to tailor its products, reduce operational expenses and lower customer acquisition costs allows us to pass on greater savings to our customers, compared to Ameritech and other regional Bell companies."

Ameritech's price action this week underscores the importance of the UNE-Platform (Unbundled Network Elements Platform) for offering competition in local markets. One of the most significant provisions of the 1996 Telecommunications Act, the UNE-Platform opens the market to competition by allowing local service providers to lease network elements from the regional Bell companies.

"UNE-P plays a critical role in opening local markets for competitive phone services," Mr. Battista added. "It is one of the major benefits for residential consumers as a result of the Telecommunications Act and is realized through the actions of all competitors including those of Ameritech. By giving consumers more choice and more savings, we continue to drive competition in local markets. Our team is dedicated to enhancing this competition with new products and new price offerings in the future, and with more efficient, innovative business operations that drive down costs and development cycles."

As previously announced, Talk America's United product line is aggressively priced with monthly rates as low as $19.95. The services include basic local calling, custom feature packages, 1,000 minutes of free member-to-member calling to other local bundle customers and state-to-state long distance service at five cents per minute. The Company also recently introduced attractive rates for additional lines used for internet dial up services and fax transmission. The Company's sales and marketing channels are designed to qualify potential customers and match the calling plans that best suit their needs.

To learn more about Talk America's products and services call (888) 428-3288 or visit the Company's website at www.talk.com.

About Talk America
Talk America is an integrated communications provider marketing a bundle of local and long distance phone services to residential and small business customers utilizing its proprietary ``real-time" online billing and customer service platform. Talk America has added local service to its offerings, after ten years as a long distance provider. The Company delivers value in the form of savings, simplicity and quality service to its customers based on the efficiency of its low-cost, nationwide network and the effectiveness of its systems that interface electronically with the Bell Operating Companies. For further information, visit the Company online at: www.talk.com.

Please Note: ``Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Talk America's business that are not historical facts are ``forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see the discussions contained in its Annual Report on Form 10-K for the year-ended December 31, 2001 as amended by Form 10-K/A filed April 12, 2002 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and any subsequent SEC filings.

Contact:

Talk America
David G. Zahka
Chief Financial Officer
215-862-6849 (t)
dzahka@talk.com
www.talk.com

TDS

33057 Schoolcraft Road
Building #4
Livonia, MI 48150-1618

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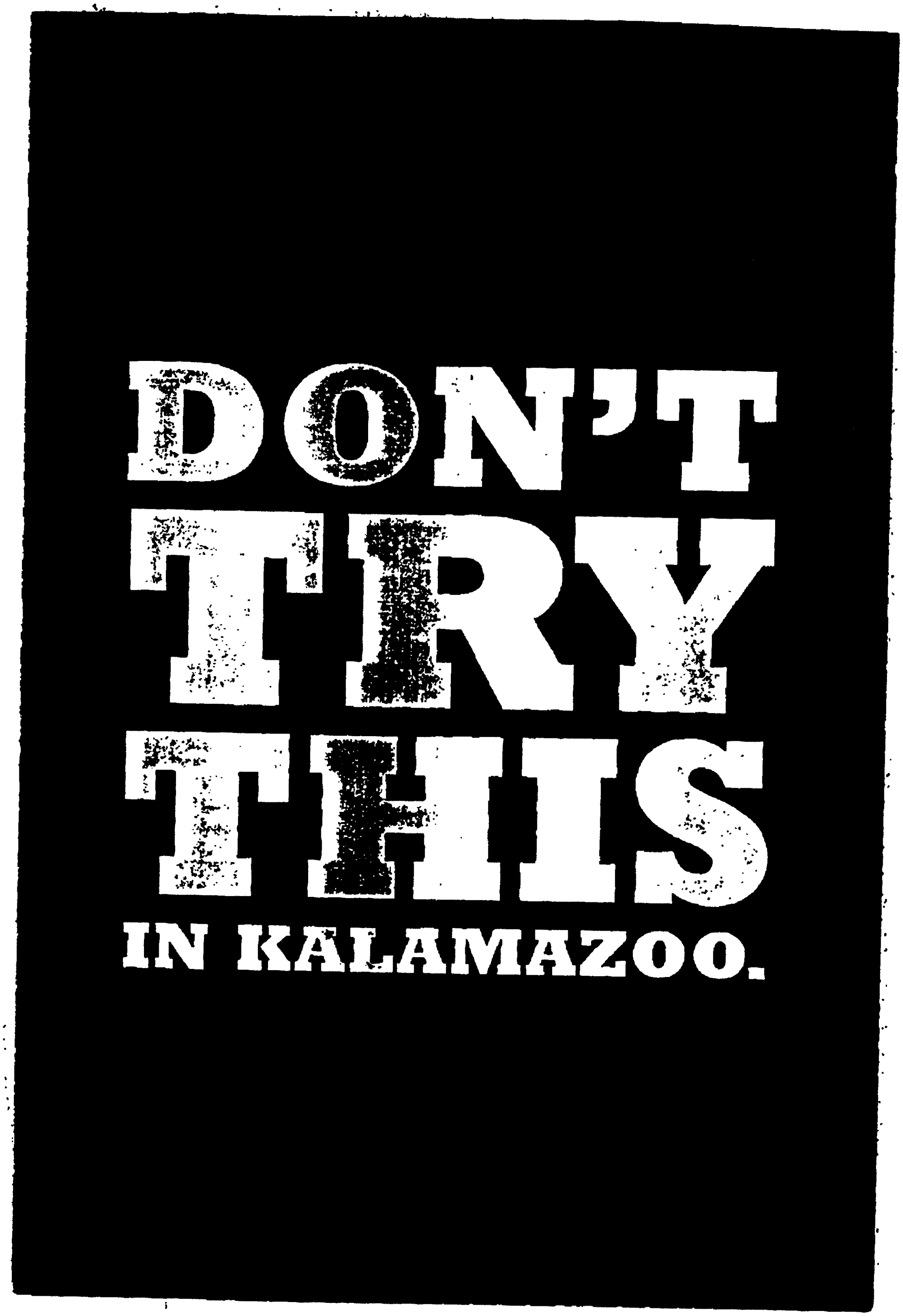
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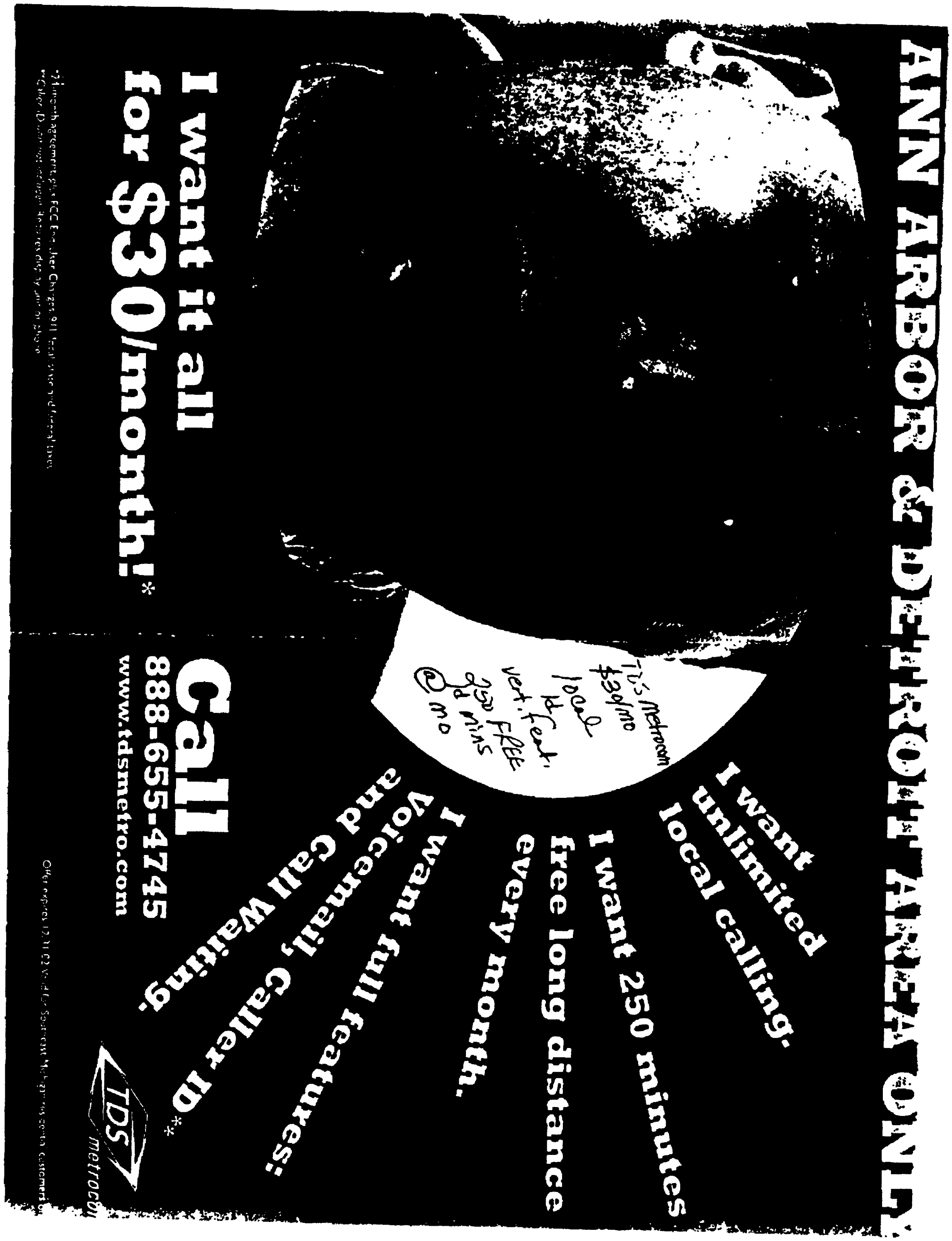
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Finally, local phone service without astronomical cost.
$24 PER MONTH* (24 MONTHS) GUARANTEED.
500 FREE Local Calls Each Month
Three-Way Calling
FREE *69 (Automatic Callback)
Call Forwarding
Call Waiting
60 Minutes FREE Long Distance* Each Month

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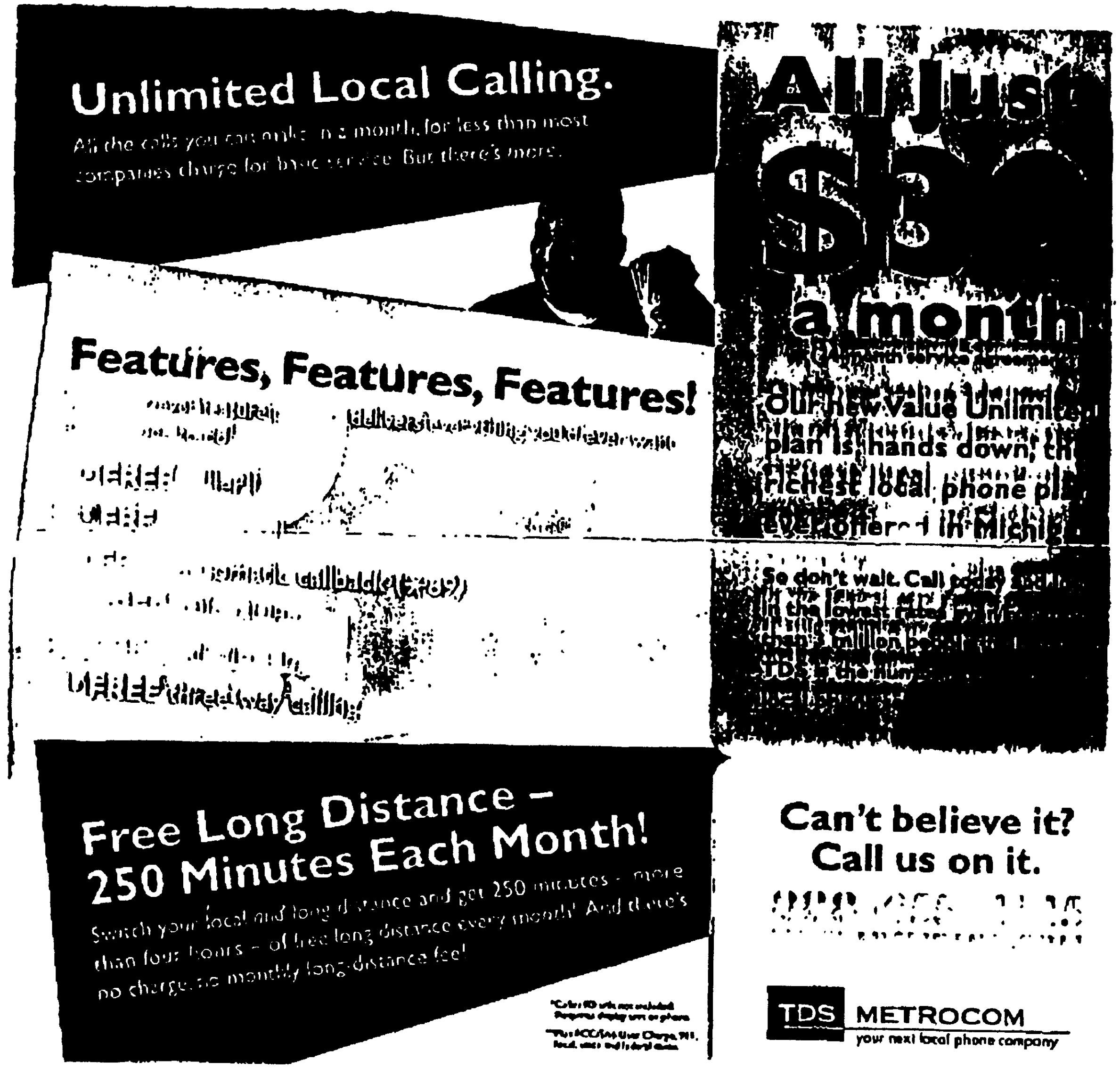

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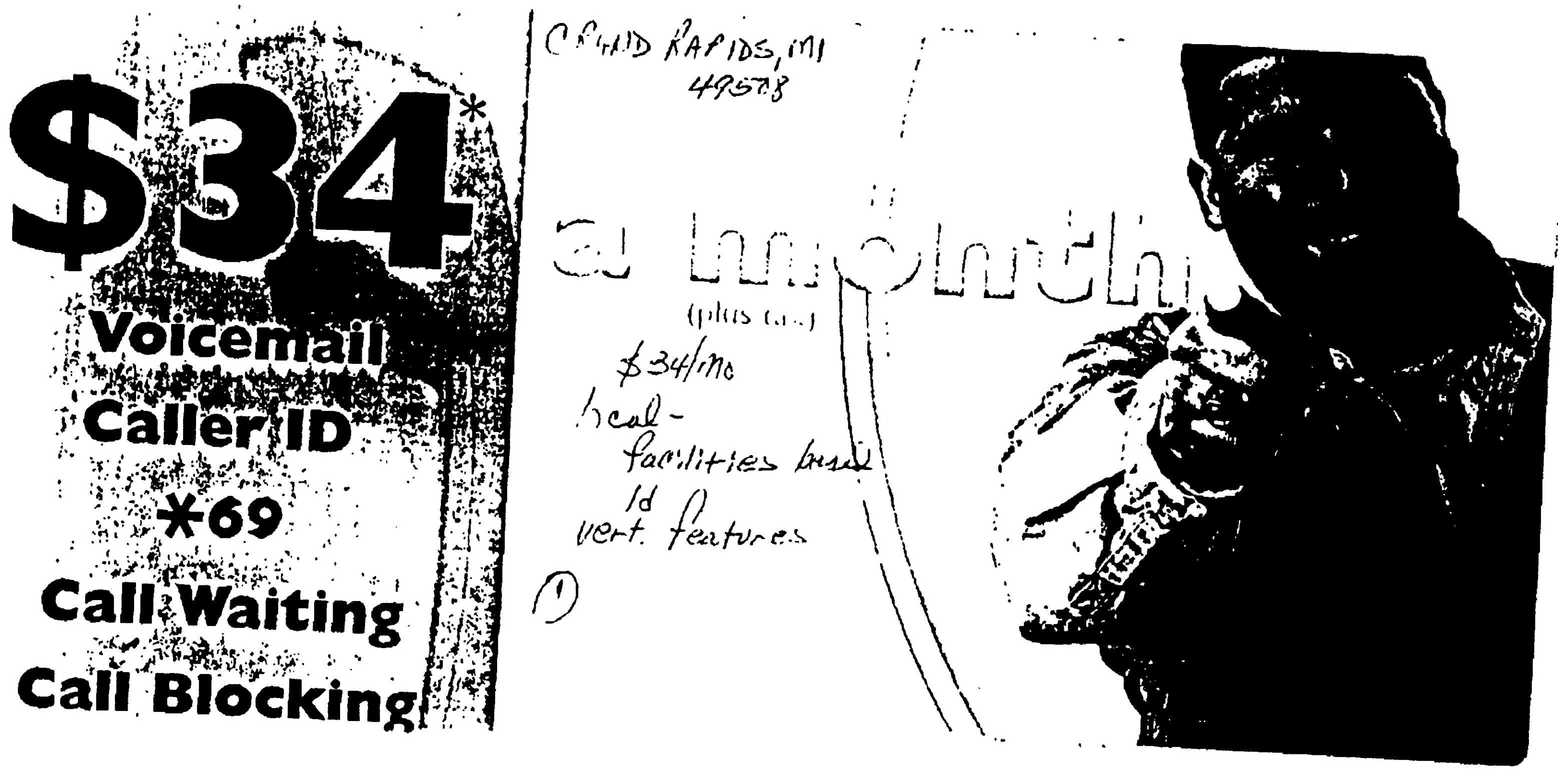
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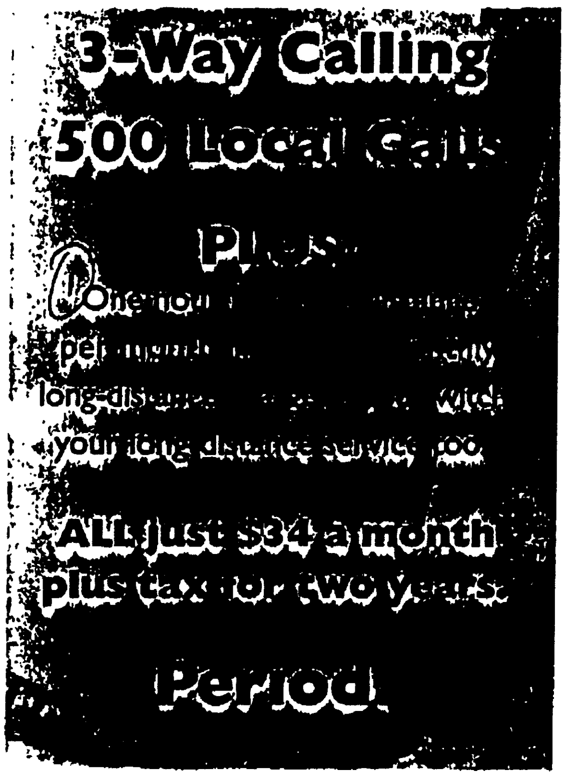

Want better phone service for less? Switch to TDS Metrocom.
It only takes a few minutes and you'll have more money
at the end of the year.

You'll love it. Period.

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Sign up online at
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*Plus FCC/End-User Charge, 911, local, state and federal taxes. **Caller ID unit not included. Requires display unit or phone.


Free Voicemail?
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Lock in a great local phone rate of just $24/month,* then SUPERSIZE your plan with bargain long-distance!

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Supersize your phone plan!

For more than 3 million customers in 38 states, TDS is the Number 1 choice in local phone service.

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We won't call you.
TDS does not telemarket.
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TDS VALUE 500 PLAN

- 500 local calls/month
- 120 long-distance minutes/month†
- Free Caller ID‡
- Free Call Waiting

$24/month*
for 24 months

250 MINUTES

SUPERSIZE TO 250

LONG-DISTANCE MINUTES/MONTH

$10.95

(Total package price $34.95/month. Additional long-distance minutes above 250 at 6¢/minute.)

500 MINUTES

SUPERSIZE TO 500

LONG-DISTANCE MINUTES/MONTH

$20.95

(Total package price $44.95/month. Additional long distance minutes above 500 at 5¢/minute.)

*Plus FCC/End-User Charges, 911, local, state and federal taxes.
†250-minute and 500-minute bundles replace the free 120 minutes included in package.
‡Caller ID unit not included. Requires display unit or phone.

ONE

[redacted]
Belleville, MI 48111-9172

ONECHOICE – It's your chance to choose! NEW LOCAL TELEPHONE SERVICE

Dear VarTec Telecom® Customer,

For years, our customers have requested that VarTec Telecom provide both local AND long distance telephone service – NOW WE CAN! You can choose VarTec Telecom as your local AND long distance telephone company with ~~OneChoice for only~~ $29.95 a month.

With OneChoice, there's no need to dial 10-10-811* anymore!

VarTec Telecom is a company you've trusted for your long distance needs, and now you can choose us for local AND long distance service. Same great service without all the extra numbers to dial!

6 Great Features Included For Only $29.95

- You get Local Telephone Service
- You get Caller ID*
- You get Call Waiting
- You get Call Waiting ID*
- You get Auto Busy Redial
- You get Auto Call Return
- Now you get your first 200 U.S. long distance minutes** included every month at no additional charge
- After the first 200 included minutes** all U.S. long distance calls are JUST 7¢ A MINUTE

Additional Benefits

- No need to dial 10-10-811 before every long distance call
- One convenient bill
- Easy to switch – no fees, no hassles
- Your local telephone number won't change

~~Simply call toll-free~~ 1-888-282-7535 to sign up or complete the Letter of Agency below and return it in the postage-paid envelope to sign up for OneChoice for just $29.95 a month.

Sincerely,

CALL TOLL FREE
1-888-282-7535
NOW!

K.R. Ball
Vice President – Marketing
VarTec Telecom, Inc.

Questions? Call 1-888-282-7535

VarTec Telecom, Inc.
visit www.vartec.com

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Letter of Agency

KEY CODE: MI23R
[redacted]
Belleville, MI 48111-9172

☐ Check here if name and address are not correct. See reverse side with changes.

[illegible]

Signed ______________________ Date ____________

Social Security Number ______________________

Belleville, MI
48111

ONECHOICE — it's your chance to choose!

6 Great Features Included For Only $29.95

Additional Benefits:

- There's no need to dial 10-10-811 before your long distance calls anymore
- One convenient bill
- Easy to switch – no fees, no hassles
- Your local telephone number won't change

With OneChoice, you will receive *ONE monthly phone bill, quality customer* assistance, great international rates, and best of all you won't have to dial all of those extra numbers before your long distance calls! Sign up today!

Questions? Call 1-888-282-7535
or visit www.vartec.com

Call Now!
1-888-282-7535 or
complete the enclosed Letter of Agency and return it in the postage paid envelope.

ONE choice

THE Neighborhood
built by mci

P.O. Box 4688, Iowa City, IA 52244-4688

PRESORT STD
U.S. POSTAGE
PAID
THE NEIGHBORHOOD

NOV 1 6 2002

R008*0009126644*C03*L03*1

Important information about your home phone service.

[redacted]
Saginaw, MI 48601-9735

THE Neighborhood
built by mci

FREE CALLING CERTIFICATE

CHECK VOID IF ALTERED

This certificate must be signed on back to be valid.

77-70 7-11/520

Certificate No. 60490424
Phone No. 989-746-9926

Call 1-800-400-1243 to get your Activation Code. Write your code here: ☐☐☐☐

Pay to the order of The Neighborhood **$50.00**

Fifty Dollars and 00 Cents

Issued: October 02, 2002
Valid until: January 05, 2003

898 QKC VC91 Neighborhood Complete

[redacted]
Saginaw, MI 48601-9735

Payable Through
ALLFIRST Bank
Baltimore, MD

Authorized Signature

⑆052000113⑆ 776049842470⑈

Join The Neighborhood.

A revolutionary local and long distance phone service that lets you speak freely from home to anyone in the U.S. As often as you want. Anytime you feel like it. For one monthly price of $49.99.*

With Neighborhood Complete you get:

- unlimited long distance
- unlimited local calls
- call waiting
- caller id
- voicemail
- 3-way calling
- speed dial

Now you can have it all! Join The Neighborhood today and get $50 in FREE calling.**

Call 1-800-400-1243 now to join and we'll activate this FREE $50 Certificate.

THE Neighborhood
built by mci

R008*00091264*C03*L03*L

[redacted]

With The Neighborhood. built by MCI. you can get local and long distance calling, all from one company

THE Neighborhood built by mci

Unlimited long distance. Unlimited local calls. All for one price. With Neighborhood Complete, you can call anyone, next door or across the country, at any time from home for one monthly price of $49.99.* And, no matter how much you talk, *you'll pay the same price every month.*

Even your favorite calling features are included. Voicemail. Call Waiting. Caller ID. 3-Way Calling. Speed Dial. All the convenient features you've always wanted. The extras are no longer extra.

Get $50 in free calling when you join The Neighborhood. Join by December 12, 2002, and we'll give you the code that activates the enclosed $50 certificate.** **Call 1-800-400-1243** to sign up, and follow the simple instructions on the next page.

Activating your $50 certificate is as easy as 1-2-3. **Turn this page and dial 1-800-400-1243!**

Sincerely,

James G. Myers

James G. Myers
Vice President
Customer Service

To Redeem Your $50 Certificate:

1. Call 1-800-400-1243 now to join The Neighborhood.

2. Ask for the Activation Code required to redeem your certificate. Write the code in the boxes provided on your certificate.

3. Sign and enclose your certificate with your first Neighborhood bill. You must write your phone number on the back of the certificate.

The Neighborhood
built by mci

THE Neighborhood
built by mci
P.O. Box 4588 Iowa City, IA 52244-4588

Important information about your home phone service

**************AUTO**3-DIGIT 482
[redacted]
Detroit, MI 48227-1313

[redacted]

The Neighborhood is a new nationwide local phone company that lets you speak freely from home to the people you want, as often as you want, for one monthly price.

THE Neighborhood built by mci

Unlimited long distance. Unlimited local calls. All for one price.

Get Neighborhood Complete for $49.99* a month and talk to anyone, anytime, anywhere in the U.S. No matter how much you talk or how often you call, you'll never have to worry about your home phone bill again.

Calling features included!

You shouldn't have to pay more to have things just the way you like them. And now you don't have to. Your favorite calling features are included in The Neighborhood.

Call 1-800-400-0835 today. And speak freely from now on.

Finally, there's a phone company that understands your wish to speak freely. And your desire never to think about your home phone bill again. Call to join The Neighborhood today.

Sincerely,

James G. Myers

James G. Myers
Vice President, Customer Service

[redacted] Traverse City, MI 49686

THE **Neighborhood** built by mci

Neighborhood Complete gives you
- unlimited long distance
- unlimited local calls
- calling features:
  - call waiting
  - caller id
  - voicemail
  - 3-way calling
  - speed dial

Now you can have it all.
For one monthly price.

[redacted]

Traverse City, MI 49686-8708

Start with 10 FREE movie rentals good at BLOCKBUSTER®

Call 1-800-393-4004

Number: 000029434001719

[redacted]

Introducing The Neighborhood – a revolutionary phone service that's got everybody talking. Finally, you can call next door or across the country as much as you want. Plus, voicemail and your favorite calling features are included. It's an extremely simple, revolutionary idea. And it's finally here.

Unlimited long distance. Unlimited local calls. All yours for one monthly price.
That's right. You'll never have to worry about your home phone bill again with Neighborhood Complete. *For one monthly price of $49.99*, you're free to call from home to anyone, anywhere in the U.S., day or night* and talk as long as you want.

Even your favorite calling features are included.
Call Waiting. Caller ID. Voicemail. 3-Way Calling. Speed Dial. All the convenient features you've always wanted can now be yours, as part of your monthly price. The extras are no longer extra.

Call now and get 10 FREE movie rentals good at BLOCKBUSTER.**
Join The Neighborhood by August 15, 2002 and get 10 free movie (DVD or VHS) rentals good at a participating BLOCKBUSTER store. Plus, you'll continue to earn a free rental certificate for every $25 you spend each month as a member of The Neighborhood.†

Call 1-800-393-4004 today.
Finally, there's a phone company that understands your wish to speak freely and your desire never to think about your phone bill again. Call today to join The Neighborhood and get your 10 free movie rentals good at BLOCKBUSTER.

Sincerely,

Lisa Zoellner
VP, Partnership Marketing
Blockbuster Inc.

Molly McCardle
VP, Partnership Marketing
MCI

BLOCKBUSTER

862-LTR1

[redacted] Traverse City, MI 49686

Join The Neighborhood today, and you're on your way to FREE movie rentals good at BLOCKBUSTER® every month!

THE Neighborhood
built by mci

You'll earn a rental certificate good for one (1) FREE movie (DVD or VHS) or game rental at any participating BLOCKBUSTER store for every $25 you spend each month as a member of The Neighborhood!†

THE BEST WAY TO DVD IS BLOCKBUSTER.™

BLOCKBUSTER

Make It a BLOCKBUSTER Night

*For residential voice service only. Call for availability in your area.
Rates exclude Federal Universal Service Fee, taxes, state surcharges, and a Network Access Charge of $[illegible]/month for the first line.

**For new MCI customers only. Must be at least 18 years old and authorized to select the phone service carrier for your household. Each rental certificate is redeemable at a participating BLOCKBUSTER® store. Your rental certificates will arrive within 3-6 weeks of joining The Neighborhood. Please allow additional time if you are requesting service for a new phone number. You must remain an MCI customer through the time of fulfillment to receive your promotion.

†The following MCI® services count toward the $25 spending threshold: Long Distance, Local Toll, MCI Calling Card, Local services and International calls. Local Toll service may also be referred to as in-state long distance, local long distance, regional or shorter distance calls. For each incremental $25 consumers spend during that month, they will earn one additional rental certificate. Rental certificates are good towards one (1) free movie (DVD or VHS) or game rental. Based on MCI spending net of taxes, credits and surcharges, if any. Limit one bonus program per MCI account. Membership rules apply for rentals at BLOCKBUSTER®. Limit one (1) rental certificate redemption per membership account per visit to BLOCKBUSTER. Customer is responsible for all applicable taxes and extended viewing fees. Rental certificates cannot be combined with any other discounts or offers, cannot be exchanged for cash, and may not be sold, transferred, or reproduced. [illegible] redemption. Void if lost or stolen. Free rental certificates are redeemable at a participating BLOCKBUSTER store in the United States. [illegible] credit will be applied to lowest rental price. Cash value of rental certificate is 1/100¢. BLOCKBUSTER name, design and related marks are trademarks of Blockbuster Inc. ©2002 Blockbuster Inc. All rights reserved. ©2002 WorldCom, Inc. All rights reserved.

** TOTAL PAGE.04 **

Z-LineHOME

The *Smart Choice* for Home Phone Service

[redacted]
Detroit, MI 48219-3958

Dear [redacted]

If you're like most people, you don't want to put up with anymore hassles from Ameritech. With Z-LineHOME™ from Z-Tel® you don't have to.

It's this simple:

1. Give us a few minutes of your time
2. Call us toll-free at

OCT 0 4 2001

3. Begin saving up to $200 a year on home phone service

to make this call?

Z-LineHOME **makes** *phone service simple, with local and long distance calling, plus Voicemail, Call* **Waiting and more,** on one bill, from one company, at **a savings of about 25% over Ameritech!** **And you can even keep** your current phone number. All this starts at just **$24.99** per month with no **cost to switch!*** Other plans with additional features and long distance are available.

To ***make this even easier*** *for you, we'll send you a* ***$25 Target GiftCard***** *just for becoming a* **Z-Tel customer.** This offer expires soon, so **call 1-866-888-3497 today.** Or, sign the order form **below (we've already** filled it out for you!), put it in the postage paid envelope provided, and drop it **in the mail.**

Remember, it takes just a few minutes to call and sign up for *Z-LineHOME.* With *Z-LineHOME* **there are no hassles,** just savings! So give us a call and find out more.

Z-Tel

PS. ***Pass*** *the attached card along to a friend. ... the $25 Target GiftCard when they become a Z-Tel customer.***

Z-LineHOME

The *Smart Choice* for Home Phone Service

[redacted]
Detroit, MI 48219-3958

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO. 374 TAMPA FL

POSTAGE WILL BE PAID BY ADDRESSEE

OCT 04 2001

Z-TEL LOCAL SERVICE
601 S HARBOUR ISLAND BLVD STE 220
TAMPA FL 33602-9882

Z-LineHOME™

The *Smart Choice*
for Home Phone Service

[redacted]
Detroit, MI 48238-1715

Dear [redacted]

If you're like most people, you don't want to put up with anymore hassles from Ameritech. With Z-LineHOME™ from Z-Tel® you don't have to.

It's this simple.

1. Give us a few minutes of your time
2. Call us toll-free at **1-866-888-3497**
3. Begin saving up to $200 a year on home phone service*

Can you really afford NOT to make this call?

Z-LineHOME makes phone service **simple, with local and long distance calling, plus Voicemail, Call Waiting and more, on one bill, from one company, at a savings of about 25% over Ameritech!** And you can even keep your current phone number. All this starts at just $24.99 per month with no cost to switch!* Other plans with additional features and long distance are available.

To make this even easier for you, we'll send you a **$25 Target GiftCard**** just for becoming a Z-Tel customer. This offer expires soon, so call 1-866-888-3497 today. Or, sign the order form below (we've already filled it out for you!), put it in the postage paid envelope provided, and drop it in the mail.

Remember, it takes just a few minutes to call and sign up for Z-LineHOME. With Z-LineHOME there are no hassles, just savings! **So give us a call and find out more.**

Z-Tel

*PS: Pass the attached card along to a friend. They'll get the same great phone service and the $25 Target GiftCard when they become a Z-Tel customer.***

[illegible]

Z-LineHOME™

The *Smart Choice*
for Home Phone Service

[redacted]
Detroit, MI 48238-1715

If above information is incorrect, make changes to the right.

[illegible]

☑ $24.99 Mo. Basic Plan

[illegible]

Notice: The back portion of this document must be completed to switch service.

Heritage Affidavit – Attachment I

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

[ ] TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____ TO ____

COMMISSION FILE NUMBER 0 - 26728

TALK AMERICA HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	23-2827736
(State of incorporation)	(I.R.S. Employer Identification No.)

12020 SUNRISE VALLEY DRIVE, SUITE 250, RESTON, VIRGINIA	20191
(Address of principal executive offices)	(Zip Code)

(703) 391-7500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

81,690,766 shares of Common Stock, par value of $0.01 per share, were issued and outstanding as of August 6, 2002.

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2002	2001
Sales	$77,673	$132,445
Costs and expenses:		
Network and line costs	37,652	63,513
General and administrative expenses	13,647	23,266
Provision for doubtful accounts	2,801	35,852

Sales and marketing expenses	6,913	25,004
Depreciation and amortization	4,429	9,698
Total costs and expenses	65,442	157,333
Operating income (loss)	12,231	(24,888)
Other Income (expense):		
Interest income	94	308
Interest expense	(2,899)	(1,542)
Other, net	(9)	272
Income (loss) before provision for income taxes	9,417	(25,850)
Provision for income taxes	--	--
Income (loss) before cumulative effect of an accounting change	9,417	(25,850)
Cumulative effect of an accounting change	--	(36,837)
Net income (loss)	$9,417	$(62,687)
Income (loss) per share - Basic:		
Income (loss) before cumulative effect of an accounting change per share	$0.12	$(0.33)
Cumulative effect of an accounting change per share	--	(0.47)
Net income (loss) per share	$0.12	$(0.80)
Weighted average common shares outstanding	81,667	78,374
Income (loss) per share - Diluted:		
Income (loss) before cumulative effect of an accounting change per share	$0.11	$(0.33)
Cumulative effect of an accounting change per share	--	(0.47)
Net income (loss) per share	$0.11	$(0.80)
Weighted average common and common equivalent shares outstanding	86,817	78,374

See accompanying notes to consolidated financial stateme

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

JUNE 30
2002

	(UNAUDITE
ASSETS	
Current assets:	
Cash and cash equivalents	$ 30,702
Accounts receivable, trade (net of allowance for uncollectible accounts of $17,053 and $46,404 at June 30, 2002 and December 31, 2001, respectively)	22,980
Prepaid expenses and other current assets	2,142
Total current assets	55,824
Property and equipment, net	70,789
Goodwill	19,503
Intangibles, net	8,800
Other assets	8,976
	$ 163,892
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current liabilities:	
Accounts payable	$ 30,886
Sales, use and excise taxes	9,043
Deferred revenue	7,735
Current portion of long-term debt	8,954
4.5% Convertible subordinated notes due 2002	3,910
Other current liabilities	11,377
Total current liabilities	71,905
Long-term debt:	
Senior credit facility	10,000
8% Convertible notes due 2011 (includes future accrued interest of $29,496 and $30,982 at June 30, 2002 and December 31, 2001, respectively)	63,102
12% Senior subordinated notes due 2007	70,653
8% Convertible senior subordinated notes due 2007 (includes future accrued interest of $1,346 at June 30, 2002)	4,168
4.5% Convertible subordinated notes due 2002	--
5% Convertible subordinated notes due 2004	670
Other long-term debt	58
Total long-term debt	148,651
Commitments and contingencies	
Stockholders' equity (deficit):	
Preferred stock - $.01 par value, 5,000,000 shares authorized; no shares outstanding	--
Common stock - $.01 par value, 300,000,000 shares authorized; 81,688,489 and 81,452,721 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively	817
Additional paid-in capital	350,835
Accumulated deficit	(408,316
Total stockholders' equity (deficit)	(56,664
	$ 163,892

See accompanying notes to consolidated financial statements.

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS JUNE	
	2002	
Cash flows from operating activities:		
Net income (loss)	$ 17,547	$
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	6,808	
Depreciation and amortization	8,872	
Cumulative effect of an accounting change for contingent redemptions	--	
Loss on sale and retirement of assets	205	
Other non-cash charges	128	
Changes in assets and liabilities:		
Accounts receivable, trade	(3,141)	
Prepaid expenses and other current assets	(58)	
Other assets	518	
Accounts payable	(12,212)	
Deferred revenue	(2,458)	
Sales, use and excise taxes	704	
Other liabilities	188	
Net cash provided by (used in) operating activities	17,101	
Cash flows from investing activities:		
Capital expenditures	(2,103)	
Capitalized software development costs	(1,120)	
Acquisition of intangibles	(50)	
Net cash used in investing activities	(3,273)	
Cash flows from financing activities:		
Payments of borrowings	(2,685)	
Acquisition of convertible debt	(1,697)	
Payments of capital lease obligations	(861)	
Exercise of stock options	17	
Net cash used in financing activities	(5,226)	
Net increase (decrease) in cash and cash equivalents	8,602	
Cash and cash equivalents, beginning of period	22,100	
Cash and cash equivalents, end of period	$ 30,702	$

See accompanying notes to consolidated financial statements.

TALK AMERICA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. ACCOUNTING POLICIES

(A) BASIC PRESENTATION

The consolidated financial statements include the accounts of Talk America Holdings, Inc. and its wholly owned subsidiaries, primarily Talk America Inc. (collectively, the "Company"), and have been prepared as if the entities had operated as a single consolidated group since their respective dates of incorporation. All intercompany balances and transactions have been eliminated.

The consolidated financial statements and related notes thereto as of June 30, 2002 and for the three and six months ended June 30, 2002 and June 30, 2001 are presented as unaudited but in the opinion of management include all adjustments necessary to present fairly the information set forth therein. The consolidated balance sheet information for December 31, 2001 was derived from the audited financial statements included in the Company's Form 10-K, as amended by its Form 10-K/A filed April 12, 2002. These interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as amended by its Form 10-K/A filed April 12, 2002. The interim results are not necessarily indicative of the results for any future periods. Certain prior year amounts have been reclassified to conform to the current year's presentation.

(B) RISKS AND UNCERTAINTIES

Future results of operations involve a number of risks and uncertainties. Factors that could affect future operating results and cash flows and cause actual results to vary materially from historical results include, but are not limited to:

- The Company's business strategy with respect to bundled local and long distance services may not succeed
- Failure to manage, or difficulties in managing, the Company's growth and operations including attracting and retaining qualified personnel and opening up new territories for its services with favorable gross margins
- Dependence on the availability and functionality of incumbent local telephone companies' networks, as they relate to the unbundled network element platform or the resale of such services
- Increased price competition in local and long distance services
- Failure or interruption in the Company's network and information systems
- Changes in government policy, regulation and enforcement
- Failure of the marketing of the bundle of the Company's local and long distance services under its direct marketing channels and under its agreements with its various marketing partners and failure to successfully add new marketing partners
- Failure of the Company's collection management system and credit control efforts for customers
- Inability to adapt to technological change
- Competition in the telecommunications industry
- Inability to manage customer attrition or turnover and bad debt expense and lower customer acquisition costs
- Adverse change in the Company's relationship with third party carriers

- Failure or bankruptcy of other telecommunications companies whom the Company relies upon for services and revenues
- Ability to realize the benefit of any net operating loss carryforwards on future taxable income generated by the Company

Negative developments in these areas could have a material effect on the Company's business, financial condition and results of operations.

(C) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which establishes the impairment approach rather than amortization for goodwill.

Effective January 1, 2002, the Company was no longer required to record amortization expense on goodwill, but instead is required to evaluate these assets for potential impairment at least annually and will test for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. An impairment loss would generally be recognized when the carrying amount of the reporting units' net assets exceeds the estimated fair value of the reporting unit.

In order to complete the transitional assessment of goodwill as required by SFAS No. 142, the Company was required to determine by June 30, 2002, the fair value of the reporting unit associated with the goodwill and compare it to the reporting unit's carrying amount, including goodwill. To the extent a reporting unit's carrying amount exceeded its fair value, an indication would have existed that the reporting unit's goodwill assets may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, "Business Combinations," to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of 2002. Any transitional impairment charge will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations. The Company completed the transitional assessment of goodwill and determined that the fair value of the reporting unit exceeds its carrying amount, thus goodwill is not considered impaired. Since the fair value of the reporting unit exceeded the carrying amount under the transitional assessment, the Company does not need to perform the second step of the transitional impairment test. The Company determined that it has one reporting unit under the guidance of SFAS No. 142. The fair value was determined primarily using a discounted cash flow approach and quoted market price of the Company's stock. The amount of goodwill reflected in the balance sheet as of June 30, 2002 was $19.5 million. The required impairment tests of goodwill may result in future period write-downs.

The following unaudited pro forma summary presents the adoption of SFAS No. 142 as of the beginning of the periods presented to eliminate the amortization expense recognized in those periods related to goodwill that are no longer required to be amortized. The pro forma amounts for the three and six months ended June 30, 2001 do not include any write downs of goodwill which could have resulted had the Company adopted SFAS No. 142 as of the beginning of the periods presented and performed the required impairment test under this standard.

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MC ENDED JUNE 3	
	2002	2001	2002	200
Net income (loss) as reported	$9,417	$(62,687)	$17,547	$(72
Goodwill amortization	--	5,047	--	10
Adjusted net income (loss)	$9,417	$(57,640)	$17,547	$(62
Basic income (loss) per share:				
Net income (loss) as reported per share	$0.12	$(0.80)	$0.22	$(
Goodwill amortization per share	--	0.06	--	
Adjusted net income (loss) per share	$0.12	$(0.74)	$0.22	$(
Diluted income (loss) per share:				
Net income (loss) as reported per share	$0.11	$(0.80)	$0.21	$(
Goodwill amortization per share	--	0.06	--	
Adjusted net income (loss) per share	$0.11	$(0.74)	$0.21	$(

Intangible assets consisted primarily of purchased customer accounts with a definite life and are being amortized on a straight-line basis over 5 years. The Company incurred amortization expense on intangible assets with a definite life of $0.7 million and $1.4 million for the three and six months ended June 30, 2002, and $1.5 million and $2.2 million for the three and six months ended June 30, 2001. The Company's balance of intangible assets with a definite life was $8.8 million at June 30, 2002, net of accumulated amortization of $4.8 million. Amortization expense on intangible assets with a definite life for the

next 5 years as of June 30, is as follows: 2003 - $2.8 million, 2004 - $2.8 million, 2005 - $2.8 million, 2006 - $0.3 million and 2007 - $0.1 million.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective in fiscal years beginning after June 15, 2002, with early adoption permitted. The Company expects that the provisions of SFAS 143 will not have a material effect on its consolidated results of operations or financial position upon adoption.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 superseded Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to

Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Adoption of SFAS 144 has had no impact on the Company's consolidated results of operations or financial position.

Effective January 1, 2002, the Company also adopted Emerging Issues Task Force (EITF) 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." This issue presumes that consideration from a vendor to a customer or reseller of the vendor's products is a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's statement of operations and could lead to negative revenue under certain circumstances. Revenue reduction is required unless the consideration relates to a separate, identifiable benefit and the benefit's fair value can be established. The adoption of this issue resulted in a reclassification of approximately $1.3 million and $7.3 million from sales and marketing expenses to a reduction of net sales for the three and six months ended June 30, 2001 attributed to direct marketing promotion check campaigns. The adoption of EITF 01-09 did not have a material effect on the Company's consolidated financial statements for the three and six months ended June 30, 2002, as the Company did not have any direct marketing promotion check campaigns during these periods.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 requires that a liability for a cost that is associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 also establishes that fair value is the objective for the initial measurement of the liability. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company expects that the provisions of SFAS 146 will not have a material effect on its consolidated results of operations or financial position upon adoption.

NOTE 2. CONVERTIBLE SUBORDINATED NOTES AND EXCHANGE OFFERS

Effective April 4, 2002, the Company completed the exchange of $57.9 million of the $61.8 million outstanding principal balance of its 4 1/2% Convertible Subordinated Notes ("4 1/2% Notes") that mature on September 15, 2002 into $53.2 million of new 12% Senior Subordinated PIK Notes due August 2007 ("12% Notes") and $2.8 million of new 8% Convertible Senior Subordinated Notes due August 2007 ("8% Notes") and cash paid of $0.5 million. In addition, the Company exchanged $17.4 million of the $18.1 million outstanding principal balance of its 5% Convertible Subordinated Notes ("5% Notes") that mature on December 15, 2004 into $17.4 million of the new 12% Notes.

The new 12% Notes accrue interest at a rate of 12% per year on the principal amount, payable two times a year on each February 15 and August 15, beginning on August 15, 2002. Interest is payable in cash, except that the Company may, at its option, pay up to one-third of the interest due on any interest payment date through and including the August 15, 2004 interest payment date in additional 12% Notes (see Note 5 regarding the Company's agreement under its Credit Facility Agreement to pay interest in kind to the maximum extent possible). The new 8% Notes accrue interest at a rate of 8% per year on the principal amount, payable two times a year on each February 15 and August 15,

beginning on August 15, 2002 and are convertible, at the option of the holder, into common stock at $5.00 per share. The 12% and 8% Notes are redeemable at any time at the option of the Company at par value plus accrued interest to the redemption date, although the Company's Credit Facility Agreement and AOL

Restructuring Agreement restrict the Company's ability to redeem the 12% and 8% Notes (see Notes 3 and 5). In addition, the Company is not required to make mandatory redemption payments to repurchase the new notes in the case of a change of control of the Company.

As part of the restructuring, the Company amended the indentures governing the 4 1/2% and 5% Notes that were not exchanged to remove the Company's obligation to repurchase the notes on the termination of trading of the Company's common stock on a national securities exchange or established automated over-the-counter trading market and to remove the obligation to repurchase the notes on the occurrence of certain designated events, such as a change of control of the Company.

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," the exchange of the 4 1/2% Notes into $53.2 million of the 12% Notes and $2.8 million of the 8% Notes is accounted for as a troubled debt restructuring. Since the total liability of $57.4 million ($57.9 million of principal as of the exchange date, less cash payments of $0.5 million) is less than the future cash flows to holders of 8% Notes and 12% Notes of $91.5 million (representing the $56.0 million of principal and $35.5 million of future interest expense), the liability remained on the balance sheet at $57.4 million as long-term debt. The difference of $1.4 million between principal and the carrying amount will be recognized as a reduction of interest expense over the life of the new notes.

NOTE 3. AOL AGREEMENTS

On September 19, 2001, the Company restructured its financial obligations with America Online, Inc. ("AOL") that arose under the Investment Agreement entered into on January 5, 1999 and also ended its marketing relationship with AOL effective September 30, 2001 (collectively the "AOL Restructuring"). In connection with the AOL Restructuring, the Company and AOL entered into a Restructuring and Note Agreement ("Restructuring Agreement") pursuant to which the Company issued to AOL $54.0 million principal amount of its 8% secured convertible notes due September 2011 ("2011 Convertible Notes") and 3,078,628 additional shares of the Company's common stock.

Pursuant to the Restructuring Agreement, in exchange for and in cancellation of the Company's warrants to purchase 2,721,984 shares of the common stock and the Company's related obligations under the Investment Agreement to repurchase such warrants from AOL, the Company issued the 3,078,628 additional shares of its common stock to AOL, after which AOL holds a total of 7,200,000 shares of common stock. The Company agreed to provide certain registration rights to AOL in connection with the shares of common stock issued to it by the Company.

The Restructuring Agreement provided that the Investment Agreement, the Security Agreement securing the Company's obligations under the Investment Agreement and the existing Registration Rights Agreement with AOL were terminated in their entirety and the parties were released from any further obligation under these agreements. In addition, AOL, as the holder of the 2011 Convertible Note, entered into an intercreditor agreement with the lender under the Company's existing secured credit facility (see Note 5).

The 2011 Convertible Notes were issued in exchange for a release of the Company's reimbursement obligations under the Investment Agreement. AOL, in lieu of any other payment for the early discontinuance of the marketing relationship, paid the Company $20.0 million by surrender and cancellation of $20.0 million principal amount of the 2011 Convertible Notes delivered to AOL, thereby reducing the outstanding principal amount of the 2011 Convertible Notes to $34.0 million. The 2011 Convertible Notes are convertible into shares of the Company's common stock at the rate of $5.00 per share, may be redeemed by the Company at any time without premium and are subject to mandatory redemption at the option of the holder on September 15, 2006 and September 15, 2008. The 2011 Convertible Notes accrue interest at the rate of 8% per year on the principal amount, payable two times a year on January 1 and July 1; interest is payable in cash, except that the Company may elect to pay up to 50% (100% in the case of the first interest payment) of the interest due on any payment date in kind rather

than in cash (see Note 5 regarding the Company's agreement under its Credit Facility Agreement to pay interest in kind to the maximum extent possible). The 2011 Convertible Notes are guaranteed by the Company's principal operating subsidiaries and are secured by a pledge of the Company's and the subsidiaries' assets.

In addition to the restructuring of the financial obligations discussed above, the Company and AOL agreed, in a further amendment to their marketing agreement, dated as of September 19, 2001, to discontinue, effective as of September 30, 2001, their marketing relationship under the marketing agreement. In connection with this discontinuance, the Company paid AOL $6.0 million under the marketing agreement, payable in two installments - $2.5 million on September 20, 2001 and the remaining $3.5 million on October 4, 2001. AOL, in lieu of any other payment for the early discontinuance of the marketing relationship, paid the Company $20 million by surrender and cancellation of $20 million principal amount of the 2011 Convertible Notes delivered to AOL as discussed above, thereby reducing the outstanding principal amount of the 2011 Convertible Notes to $34 million. The amendment also provided for the payment by the Company of certain expenses related to marketing services until the discontinuance and for the continued servicing and transition of telecommunications customer relationships after the discontinuance of marketing.

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," the AOL Restructuring transaction was accounted for as a troubled debt restructuring. The Company combined all liabilities due AOL at the time of the Restructuring Agreement, including the contingent redemption feature of the warrants with a value of $34.2 million and the contingent redemption feature of the common stock with a value of $54.0 million. The total liability of $88.2 million was reduced by the fair value of the 3,078,628 incremental shares provided to AOL of $1.4 million and cash paid in connection with the AOL Restructuring of $3.5 million. Since the remaining value of $83.3 million was greater than the future cash flows to AOL of $66.4 million (representing the $34.0 million of convertible debt and $32.4 million of future interest expense), the liability was written down to the value of the future cash flows due to AOL and an extraordinary gain of $16.9 million was recorded in the third quarter of 2001. As a result of this accounting treatment, the Company will record no interest expense associated with these convertible notes in future periods in the Company's statement of operations.

On February 21, 2002, by letter agreement, AOL agreed to waive certain rights that it had under the Restructuring Agreement with respect to the Company's restructuring of its existing 4 1/2% and 5% Notes. As conditions to the waiver of such rights with respect to the restructuring of its 4 1/2% and 5% Notes, the Company agreed to (i) provide that the new notes to be exchanged for the existing 4 1/2% and 5% Notes have a maturity date after September 19, 2006 and, if convertible, have a conversion price of not less than $5.00, (ii) make a prepayment on the 2011 Convertible Notes equal to forty percent of the amount of cash (excluding accrued interest paid on existing notes which are exchanged) that the Company pays to the holders of the existing notes in the exchange offers, and (iii) limit the aggregate amount of cash that the Company pays under the exchange offers and to AOL under the letter agreement to $10.0 million. Under the letter agreement, the Company also paid AOL approximately $1.2 million as a prepayment on the 2011 Convertible Note, approximately $0.7 million of which was credited against amounts the Company owed AOL under the letter agreement for cash payments in the exchange offers. After giving effect to the prepayment, and taking into account the interest that had been paid on the 2011 Convertible Notes in additional principal amount of the 2011 Convertible Notes, there was outstanding as of June 30, 2002, an aggregate of $33.6 million principal amount of the 2011 Convertible Notes and the Company did not owe AOL any additional payments related to the exchange offers. In addition, by letter agreement dated April 22, 2002, AOL agreed to waive certain rights that it had under the Restructuring Agreement with respect to the purchase prior to maturity of the balance of the $3.9 million of the outstanding 4 1/2% Notes.

On January 5, 1999, the Company and AOL entered into an Investment Agreement. Under the terms of the Investment Agreement, the Company agreed to reimburse AOL for losses AOL may incur on the sale of certain shares of the Company's common stock. In addition, AOL also had the right to require the Company to repurchase warrants held by AOL. Upon the occurrence of certain events, including material defaults by the Company under its AOL agreements and a "change of control" of the Company, the Company could have been required to repurchase for cash all of the shares held by AOL for $78.3 million ($19 per share), and the warrants for $36.3 million.

The Company had originally recorded the contingent redemption value of the common stock and warrants at $78.3 and $36.3 million, respectively, with a corresponding reduction in additional paid-in capital. In connection with the implementation of EITF 00-19, the contingent redemption feature of the common stock and warrants were recorded as a liability at their fair values of $53.5 and $32.3 million, respectively, as of June 30, 2001. The increase in the fair value of these contingent redemption instruments from issuance on January 5, 1999 to June 30, 2001 was $36.8 million, which was presented as a cumulative effect of a change in accounting principle in the statement of operations. For the quarter ended September 30, 2001, the Company recorded an unrealized loss of $2.4 million on the increase in the fair value of the contingent redemption instruments, which has been reflected in other (income) expense on the statement of operations. As discussed above, these contingent redemption instruments were satisfied through the Restructuring Agreement entered into with AOL on September 19, 2001.

NOTE 4. LEGAL PROCEEDINGS:

On November 12, 2001, the Company received an award of arbitrators awarding Traffix, Inc. approximately $6.2 million in an arbitration concerning the termination of a marketing agreement between the Company and Traffix, which the parties agreed would be paid in two installments - $3.7 million paid in November 2001 and the remaining $2.5 million paid on April 1, 2002. The Company's obligations to Traffix have been satisfied.

The Company also is a party to a number of legal actions and proceedings arising from the Company's provision and marketing of telecommunications services, as well as certain legal actions and regulatory investigations and enforcement proceedings arising in the ordinary course of business. The Company believes that the ultimate outcome of the foregoing actions will not result in liability that would have a material adverse effect on the Company's financial condition or results of operations. However, it is possible that, because of fluctuations in the Company's cash position, the timing of developments with respect to such matters that require cash payments by the Company, while such payments are not expected to be material to the Company's financial condition, could impair the Company's ability in future interim or annual periods to continue to implement its business plan, which could affect its results of operations in future interim or annual periods.

NOTE 5. SENIOR CREDIT FACILITY

The Company's principal operating subsidiaries have a Credit Facility Agreement with MCG Finance Corporation ("MCG"), providing for a term loan of up to $20.0 million maturing on June 30, 2005 and a line of credit facility permitting such subsidiaries to borrow up to an additional $30.0 million available through June 30, 2003. The availability of the line of credit facility is subject, among other things, to the successful syndication of that facility. The Company does not anticipate having any availability under this line of credit facility. Loans under the Credit Facility Agreement bear interest at a rate equal to either (a) the Prime Rate, or (b) LIBOR, plus, in each case, the applicable margin. The applicable margin is 7.0% for borrowings accruing interest at LIBOR and 6.0% for borrowings accruing interest at the Prime Rate.

The Credit Facility Agreement subjects the Company and its subsidiaries to certain restrictions and covenants related to, among other things, liquidity, per-subscriber-type revenue, subscriber acquisition costs and interest coverage ratio requirements. The principal of the term loan is paid in quarterly installments of $1.25 million on the last calendar day of each fiscal quarter commencing on September 30, 2001, and is fully repaid by June 30, 2005. The loans under the Credit Facility Agreement are secured by a pledge of all of the

assets of the subsidiaries of the Company that are parties to that agreement. In addition, the Company has guaranteed the obligations of those subsidiaries under the Credit Facility Agreement and related documents. The Company's guarantee subjects the Company to certain restrictions and covenants, including a prohibition against the payment of dividends in respect of the Company's equity securities, except under certain limited circumstances. In connection with the AOL Restructuring, MCG entered into an Intercreditor Agreement with AOL (see Note 3). At June 30, 2002, $15.0 million principal balance remained outstanding under the term loan facility and no amounts were outstanding or available under the line of credit facility.

The Credit Facility Agreement contains mandatory prepayment provisions if the Company uses a total of $10.0 million or more of cash to repurchase or otherwise prepay its other debt obligations, including the 4 1/2% and 5% Notes, the 2011 Convertible Notes and the new 8% and 12% Notes, and effectively requires the Company to elect to pay in kind, rather than cash, interest on its 2011 Convertible Notes and its new 12% Notes to the fullest extent it is permitted to do so under such notes. In connection with amendments to the Credit Facility Agreement in February 2002, the Company issued 200,000 shares of common stock to MCG with a value of $84,000 upon issuance and agreed to register such shares in the future.

NOTE 6. IMPAIRMENT AND RESTRUCTURING CHARGES

In the third quarter of 2001, the Company recorded an impairment charge of $168.7 million primarily related to the write-down of goodwill associated with the acquisition of Access One Communications Corp., ("Access One"), a private, local telecommunications service provider to nine states in the southeastern United States. The goodwill was created by purchase accounting treatment of the Access One merger transaction that closed in August 2000. SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," required the evaluation of impairment of long-lived assets and identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management determined that goodwill should be evaluated for impairment in accordance with the provisions of SFAS 121 due to the increased bad debt rate and increased customer turnover, as well as the AOL Restructuring that occurred in the quarter ended September 30, 2001. The Company addressed these operational issues by improving credit quality through credit scoring the existing and future customer base, slowing down growth of new expected customers through decreased marketing, and lowering product pricing. These and other actions taken by the Company resulted in lower current and future projected growth of bundled revenues and cash flows than those originally projected at the time of the Access One merger. The write-down of goodwill was based on an analysis of projected discounted cash flows using a discount rate of 18%, which results determined that the fair value of the goodwill was substantially less than the carrying value.

In September 2001, the Company approved a plan to close its call center operation in Sunrise, Florida. The Company recorded a charge of $2.5 million in the quarter ended September 30, 2001 to reflect the elimination of approximately 225 positions amounting to $1.0 million and lease exit costs amounting to $1.5 million in connection with the call center closure. The employees identified in the plan were notified in September 2001 and terminated in October 2001. Actual restructuring costs were $1.9 million, comprised of $1.2 million of employee severance costs and $0.7 million of lease termination and other call center closure costs. Accordingly, a $0.6 million credit was recorded in the statement of operations for the fourth quarter of 2001 for the difference between the original restructuring charge of $2.5 million and the actual costs incurred of $1.9 million.

NOTE 7. PER SHARE DATA:

Basic earnings per common share is calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive stock options, warrants and convertible bonds. Earnings per share are computed as follows (in thousands):

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR TH ENDE
	2002	2001	2002
Income (loss) before cumulative effect of an accounting change	$9,417	$(25,850)	$17,547
Cumulative effect of an accounting change	--	(36,837)	--
Net income (loss)	$9,417	$(62,687)	$17,547
Average shares of common stock outstanding used to compute basic earnings per share	81,667	78,374	81,611
Additional common shares to be issued assuming exercise of stock options and warrants, net of shares assumed reacquired and conversion of convertible bonds *	5,150	--	2,249
Average shares of common and common equivalent stock outstanding used to compute diluted earnings per share	86,817	78,374	83,860

Income (loss) per share - Basic:			
Income (loss) before cumulative effect of an accounting change per share	$0.12	$(0.33)	$0.22
Cumulative effect of an accounting change per share	--	(0.47)	--
Net income (loss) per share	$0.12	$(0.80)	$0.22
Weighted average common shares outstanding	81,667	78,374	81,611
Income (loss) per share - Diluted:			
Income (loss) before cumulative effect of an accounting change per share	$0.11	$(0.33)	$0.21
Cumulative effect of an accounting change per share	--	(0.47)	--
Net income (loss) per share	$0.11	$(0.80)	$0.21
Weighted average common and common equivalent shares outstanding	86,817	78,374	83,860

* The diluted share basis for the three and six months ended June 30, 2001 excludes convertible notes, options and warrants due to their antidilutive effect as a result of the Company's net loss from continuing operations. The diluted share basis for the three and six months ended June 30, 2002 excludes convertible notes that are convertible into 7.5 million shares of common stock due to their antidilutive effect.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Form 10-Q and in the Company's Annual Report on Form 10-K, as amended by its Form 10-K/A filed April 12, 2002 and any subsequent filings. Certain of the statements contained herein may be considered forward-looking statements. Such statements are identified by the use of forward-looking words or phrases, including, but not limited to, "estimates," "expects," "expected," "anticipates," and "anticipated." These forward-looking statements are based on the Company's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct.

Forward-looking statements involve risks and uncertainties and the Company's actual results could differ materially from the Company's expectations. In addition to those factors discussed elsewhere in this Form 10-Q (see particularly Note 1(b) of the Consolidated Financial Statements) and the Company's other filings with the Securities and Exchange Commission, important factors that could cause such actual results to differ materially include, among others, increased price competition for long distance and local services, failure of the marketing of the bundle of local and long distance services and long distance services under its agreements with its direct marketing channels and its various marketing partners, failure to manage the nonpayment of amounts due the Company from its customers from bundled and long distance services, attrition in the number of end-users, failure or difficulties in managing the Company's operations, including attracting and retaining qualified personnel, failure of the Company to be able to expand its active offering of local bundled services in a greater number of states, failure to provide timely and accurate billing information to customers, failure of the Company to manage its collection management systems and credit controls for customers, interruption in the Company's network and information systems, failure of the Company to provide adequate customer service, and changes in government policy, regulation and enforcement and/or adverse judicial interpretations and rulings relating to such regulations and enforcement. Except as otherwise required by law, the Company undertakes no obligation to update its forward-looking statements.

OVERVIEW

Talk America Holdings, Inc., through its subsidiaries (the "Company"), provides local and long distance telecommunication services to residential and small business customers throughout the United States. The Company has developed integrated order processing, provisioning, billing, payment, collection, customer service and information systems that enable the Company to offer and deliver high-quality, competitively priced telecommunication services to customers.

The Company's telecommunication services offerings primarily include the bundled service offering of local and long distance voice services, which are billed to customers in one combined invoice. Local phone services include local dial tone and local calling with a variety of features such as caller identification, call waiting and three-way calling. Long distance phone services include traditional 1+ long distance, international and calling cards. The Company uses the unbundled network element platform ("UNE-P") of the incumbent local exchange carriers ("ILECs") network to provide local services and the Company's nationwide network and third party international switching to provide long distance services. The Company attracts new customers through direct marketing channels, advertising, agent and referral programs and marketing arrangements with business partners.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated certain financial data of the Company as a percentage of sales:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX ENDED JUNE	
	2002	2001	2002	
Sales	100.0%	100.0%	100.0%	1
Costs and expenses:				
Network and line costs	48.5	48.0	49.6	
General and administrative expenses	17.6	17.5	17.9	
Provision for doubtful accounts	3.6	27.1	4.3	
Sales and marketing expenses	8.9	18.9	8.2	
Depreciation and amortization	5.7	7.3	5.6	

Total costs and expenses	84.3	118.8	85.6	1
Operating income (loss)	15.7	(18.8)	14.4	(
Other income (expense):				
Interest income	0.1	0.2	0.1	
Interest expense	(3.7)	(1.1)	(2.8)	
Other, net	--	0.2	(0.5)	
Income (loss) before income taxes	12.1	(19.5)	11.2	(
Provision for income taxes	--	--	--	
Income (loss) before cumulative effect of an accounting change	12.1	(19.5)	11.2	(
Cumulative effect of an accounting change	--	(27.8)	--	(
Net income (loss)	12.1%	(47.3)%	11.2%	(

QUARTER ENDED JUNE 30, 2002 COMPARED TO QUARTER ENDED JUNE 30, 2001

Sales. Sales decreased by 41.4% to $77.7 million for the quarter ended June 30, 2002 from $132.4 million for the quarter ended June 30, 2001.

The Company's long distance sales decreased to $38.3 million for the quarter ended June 30, 2002 from $80.4 million for the quarter ended June 30, 2001 and have decreased 12.8% sequentially from $43.9 million for the quarter ended March 31, 2002. A significant percentage of the Company's revenues were derived from long distance telecommunication services provided to customers who were obtained under the AOL marketing agreement. The Company's decision to focus on the bundled product and the discontinuation of the AOL marketing relationship effective September 30, 2001, together with customer turnover, contributed to the decline in long distance customers and revenues. This decline in long distance customers and revenues is expected to continue so long as the Company continues to focus its marketing efforts on the bundled product. Long distance revenues for the quarter ended June 30, 2002 and June 30, 2001 included non-cash amortization of deferred revenue of $1.9 million related to a telecommunications service agreement with Shared Technologies Fairchild Inc. entered into in 1997. Deferred revenue relating to this agreement has been amortized over a five-year period. The agreement and related amortization will terminate in October 2002. Long distance revenues are expected to decline to between $31 and $33 million in the third quarter of 2002 and for the full year 2002 are expected to be between $135 and $145 million.

The Company's bundled sales for the quarter ended June 30, 2002 were $39.4 million compared with $52.1 million for the quarter ended June 30, 2001, but have increased 10.9% sequentially from $35.5 million for the first quarter of 2002. The Company has approximately 244,000 bundled lines as of June 30, 2002, of which approximately 100,000 of the lines are Michigan customers. The decrease in bundled sales in the second quarter of 2002 compared to 2001 reflects the Company's decision to slow growth in bundled sales while the Company pursued its plans to improve the efficiencies of the Company's bundled business model and improve customer collections. In addition, a significant portion of the bundled sales for the quarter ended June 30, 2001 were generated

from bundled service customers acquired through marketing programs that had been discontinued in 2001. The increase in bundled revenues sequentially from first quarter of 2002 to the second quarter of 2002 is attributed to increased sales and marketing expenditures, as well as reductions in customer turnover. In the second quarter of 2002, agent sales slowed due to implementation issues associated with the Company's new product offerings. Bundled revenues are expected to increase to between $42 and $44 million in the third quarter of 2002. Bundled revenues for the full year 2002 are expected to be between $165 and $175 million. Longer-term growth in revenues will depend on continued operating efficiencies, lower customer turnover and the Company's ability to develop and scale various marketing programs.

Network and Line Costs. Network and line costs decreased by 40.7% to $37.7 million for the quarter ended June 30, 2002 from $63.5 million for the quarter ended June 30, 2001. The decrease in network and line costs was primarily due to a lower number of local and long distance customers, a reduction in access and usage charges and a reduction in primary interexchange carrier charges. Network and line costs for the second quarter of 2002 benefited from a credit of $0.8 million that the New York Public Service Commission mandated that Verizon New York provide the Company in connection with a refund of certain UNE-P switching costs totaling an aggregate $1.6 million. The balance of the credit, an additional $0.8 million, will be provided to the Company in the form of bill credits from Verizon over the six-month period ended December 31, 2002. Network and line costs also benefited from favorable resolution of disputes with vendors. The Company's policy is not to record credits from such disputes until received. As a percentage of sales, network and line costs increased to 48.5% for the quarter ended June 30, 2002, as compared to 48.0% for the same quarter last year.

Gross profit, defined as sales less network and line costs, decreased by 41.9% for the quarter ended June 30, 2002 to $40.0 million from $68.9 million for the same quarter last year, and, gross margin, defined as gross profit as a percentage of sales, decreased to 51.5% as compared to 52.0% for the quarter ended June 30, 2001. Gross margin for the long distance product was 56.6% for the second quarter of 2002 as compared to 54.5% for the same quarter last year and gross margin for the bundled product was 46.6% for the second quarter of 2002 as compared to 48.3% for the same quarter last year. The decrease in gross margin was due to the Company's decision to lower its pricing for both local and long distance service, to become more competitive with the ILECs and to provide greater value to its customers. In addition, the growth of local bundled service as a percentage of total revenue and product mix has also contributed to the decrease in gross margin. Excluding the benefit of the Verizon New York credit and other dispute resolutions, the gross margin for the bundled product would have been in the low 40% range. Upon termination of the Shared Technologies Fairchild Inc. agreement in October 2002, gross margin for the long distance product will decrease approximately 2%. The FCC is currently considering modifications to the Universal Service Fund ("USF") program that may go into effect as early as the end of 2002. Any changes to the methodology used in the calculation of the collection and payment of USF charges may have an adverse impact on the Company's gross margin. The increase in the long distance product gross margin was primarily attributable to a reduction in access charges. The Company does not anticipate a material change in access charges in the future.

General and Administrative Expenses. General and administrative expenses decreased by 41.3% to $13.6 million for the quarter ended June 30, 2002 from $23.3 million for the quarter ended June 30, 2001. The overall decrease in general and administrative expenses was due primarily to significant workforce reductions and other cost cutting efforts by the Company as it pursued improvements in operating efficiencies of the Company's bundled business model. The Company had increased personnel costs associated with supporting the Company's bundled services offerings, including customer service, provisioning and collections personnel during the quarter ended June 30, 2001. While the Company expects to realize further general and administrative expense efficiencies as the customer base grows, realization of such efficiencies will be dependant on the ability of management to control personnel costs in areas such as collections and customer service.

Provision for Doubtful Accounts. Provision for doubtful accounts decreased by 92.2% to $2.8 million for the quarter ended June 30, 2002 from $35.9 million for the same quarter last year, and, as a percentage of sales, decreased to 3.6% as compared to 27.1% for the quarter ended June 30, 2001. The Company had taken several steps during the third and fourth quarters of 2001 to reduce bad debt expense, improve the overall credit quality of its customer base and improve its collections of past due amounts. The benefits of the Company's actions to reduce bad debt expense and improve the overall credit quality of its customer base are reflected in the lower bad debt expense for the quarter ended June 30, 2002. Further, the provision for doubtful accounts for the second quarter of 2002 reflects a benefit from a reversal of the reserve for doubtful accounts of $0.5

million. In general, the Company believes that the bad debt expense as a percentage of sales of the Company's long distance customers is lower than that of its bundled customers because of the relative maturity of the long distance customer base.

Sales and Marketing Expenses. During the quarter ended June 30, 2002, the Company incurred $6.9 million of sales and marketing expenses as compared to $25.0 million for the same quarter last year, a 72.4% decrease, and, as a percentage of sales, a decrease to 8.9% as compared to 18.9% for the quarter ended June 30, 2001. The decrease from the second quarter of 2002 compared to 2001 is primarily attributable to the reduction in marketing fees paid to AOL due to the termination of the marketing relationship with AOL effective September 30, 2001. Sales and marketing expenses declined further as the Company slowed growth as it pursued its plan to improve efficiencies of the Company's bundled business model. Currently, substantially all of the sales and marketing expense is in connection with the growth of the bundled product. The Company increased sales and marketing spending from the first quarter of 2002 of $5.9 million to the second quarter of 2002 by 17.3% in order to increase the number of new bundled customers. Sales and marketing expenses are expected to increase in the third and fourth quarters of 2002 as the Company continues to target growth in the bundled product and invest in the development of its marketing programs.

Depreciation and Amortization. Depreciation and amortization for the quarter ended June 30, 2002 was $4.4 million, a decrease of $5.3 million compared to $9.7 million for the quarter ended June 30, 2001, and, as a percentage of sales, decreased to 5.7% as compared to 7.3% for the quarter ended June 30, 2001. The Company's amortization expense decreased significantly for the quarter ended June 30, 2002 due to the write-off of goodwill associated with the acquisition of Access One in the third quarter of 2001. Additionally, the Company implemented Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which established the impairment approach rather than amortization for goodwill, resulting in reduced amortization in 2002 (See Note 1 of the Notes to Consolidated Financial Statements). Amortization expense will increase in the future as the Company completes capitalized software development projects.

Interest Income. Interest income was $94,000 for the quarter ended June 30, 2002 versus $308,000 for the quarter ended June 30, 2001. Interest income for the quarter ended June 30, 2002 was lower due to the Company's lower average cash balances and a decrease in interest rates during the second quarter of 2002 as compared to the second quarter of 2001.

Interest Expense. Interest expense was $2.9 million for the quarter ended

June 30, 2002 as compared to $1.5 million for the quarter ended June 30, 2001. The increase in interest expense is attributed to higher yielding debt instruments associated with the exchange of the Company's 4 1/2% and 5% Notes for 8% and 12% Notes and the restructuring of the MCG credit facility (see Notes 2, 3 and 5 of the Notes to Consolidated Financial Statements and "Liquidity and Capital Resources"). In addition, interest expense for the quarter ended June 30, 2002 includes the write-off of deferred financing costs of $364,000 in connection with the bond restructuring. As described in Note 2 of the Notes to Consolidated Financial Statements, the 8% convertible notes due 2011 were accounted for as a troubled debt restructuring and, as such, interest expense related to the notes is excluded from net income. For the quarter ended June 30, 2002, $672,000 of interest expense related to the notes was excluded from net income.

Provision for Income Taxes. At June 30, 2002 and 2001, a full valuation allowance has been provided against the Company's net operating losses carryforwards and other deferred tax assets. Since the amounts and extent of the Company's future earnings are not determinable with a sufficient degree of probability to recognize the deferred tax assets in accordance with the requirements of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the Company has recorded a full valuation allowance on the net deferred tax assets. For the quarter ended June 30, 2002, although the Company has net income, no provision for income taxes has been reflected on the statement of operations due to the full valuation allowance. The Company has not recorded any income tax expense or benefit for the quarter ended June 30, 2001 because the Company incurred losses during this period as well as maintained a full valuation allowance at June 30, 2001. There can be no assurances that the Company will realize the benefit of any net operating loss carryforwards on future taxable income generated by the Company due to the "change of ownership" provisions of the Internal Revenue Code Section 382 (see "Liquidity and Capital Resources, Other Matters").

Cumulative Effect of an Accounting Change. The Company adopted Emerging Issues Task Force Abstract No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in

the quarter ended June 30, 2001. The cumulative effect of the adoption of this change in accounting principle resulted in a non-cash charge to operations of $36.8 million in the quarter ended June 30, 2001, representing the change in fair value of contingent redemption features of warrants and common stock held by AOL from issuance on January 5, 1999 through June 30, 2001.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

Sales. Sales decreased by 40.5% to $157.1 million for the six months ended June 30, 2002 from $264.2 million for the six months ended June 30, 2001.

The Company's long distance sales decreased to $82.3 million for the six months ended June 30, 2002 from $166.9 million for the six months ended June 30, 2001. A significant percentage of the Company's revenues were derived from long distance telecommunication services provided to customers who were obtained under the AOL marketing agreement. The Company's decision to focus on the bundled product and the discontinuation of the AOL marketing relationship effective September 30, 2001, together with customer turnover, contributed to the decline in long distance customers and revenues. This decline in long distance customers and revenues is expected to continue so long as the Company continues to focus its marketing efforts on the bundled product. Long distance revenues for the six months ended June 30, 2002 and June 30, 2001 included non-cash amortization of deferred revenue of $3.7 million related to a telecommunications service agreement with Shared Technologies Fairchild, Inc. entered into in 1997. Deferred revenue relating to this agreement has been amortized over a five-year period. The agreement and related amortization will terminate in October 2002.

The Company's bundled sales for the six months ended June 30, 2002 were $74.8 million compared with $97.3 million for the six months ended June 30, 2001. The decrease in bundled sales for the six months ended June 30, 2002 compared to 2001 reflects the Company's decision to slow growth in bundled sales while the Company pursued its plans to improve the efficiencies of the Company's bundled business model and improve customer collections. In addition, a significant portion of the bundled sales for the six months ended June 30, 2001 were generated from bundled service customers acquired through marketing programs that had been discontinued in 2001.

Network and Line Costs. Network and line costs decreased by 39.3% to $77.9 million for the six months ended June 30, 2002 from $128.2 million for the six months ended June 30, 2001. The decrease in costs was primarily due to a lower number of local and long distance customers, a reduction in access and usage charges and a reduction in primary interexchange carrier charges. Network and line costs for the six months ended June 30, 2002 benefited from the Verizon New York credit of $0.8 million. Network and line costs also benefited from favorable resolution of disputes with vendors. The Company's policy is not to record credits from such disputes until received. As a percentage of sales, network and line costs increased to 49.6% for the six months ended June 30, 2002, as compared to 48.5% for the same period last year.

Gross profit, defined as sales less network and line costs, decreased by 41.7% for the six months ended June 30, 2002 to $79.2 million from $136.0 million for the same period last year, and, gross margin, defined as gross profit as a percentage of sales, decreased to 50.4% as compared to 51.5% for the six months ended June 30, 2001. Gross margin for the long distance product was 58.4% for the six months ended June 30, 2002 as compared with 54.5% for the same period last year and gross margin for the bundled product was 41.7% for the six months ended June 30, 2002 as compared to 46.3% for the same period last year. The decrease in gross margin is due to the Company's decision to lower its pricing for both local and long distance service, to become more competitive with the ILECs and to provide greater value to its customers. In addition, the growth of local bundled service as a percentage of total revenue and product mix has also contributed to the decrease in gross margin. The increase in the long distance product gross margin was primarily attributable to a reduction in access charges. The Company does not anticipate a material change in access charges in the future.

General and Administrative Expenses. General and administrative expenses decreased by 35.5% to $28.2 million for the six months ended June 30, 2002 from $43.7 million for the six months ended June 30, 2001. The overall decrease in general and administrative expenses was due primarily to significant workforce reductions and other cost cutting efforts by the Company as it pursued improvements in operating efficiencies of the Company's bundled business model. The Company had increased personnel costs associated with supporting the

Company's bundled services offerings, including customer service, provisioning and collections personnel during the six months ended June 30, 2001.

Provision for Doubtful Accounts. Provision for doubtful accounts decreased by 86.5% to $6.8 million for the six months ended June 30, 2002 from $50.5

million for the same period last year, and, as a percentage of sales, decreased to 4.3% as compared to 19.1% for the six months ended June 30, 2001. The Company had taken several steps during the third and fourth quarters of 2001 to reduce bad debt expense, improve the overall credit quality of its customer base and improve its collections of past due amounts. The benefits of the Company's actions to reduce bad debt expense and improve the overall credit quality of its customer base are reflected in the lower bad debt expense for the six months ended June 30, 2002. Further, the provision for doubtful accounts for the six months ended June 30, 2002 reflects a benefit from a reversal of the reserve for doubtful accounts of $1.5 million. In general, the Company believes that the bad debt expense as a percentage of sales of the Company's long distance customers is lower than that of its bundled customers because of the relative maturity of the long distance customer base.

Sales and Marketing Expenses. During the six months ended June 30, 2002, the Company incurred $12.8 million of sales and marketing expenses as compared to $56.5 million for the same period last year, a 77.3% decrease, and, as a percentage of sales, a decrease to 8.2% as compared to 21.4% for the six months ended June 30, 2001. The decrease in 2002 is primarily attributable to the reduction in marketing fees paid to AOL due to the termination of the marketing relationship with AOL effective September 30, 2001. The decline is also attributable to decreased direct promotional and advertising campaigns. Sales and marketing expenses declined further as the Company slowed growth as it pursued its plan to improve efficiencies of the Company's bundled business model. Currently, substantially all of the sales and marketing expense is in connection with growth of the bundled product.

Depreciation and Amortization. Depreciation and amortization for the six months ended June 30, 2002 was $8.9 million, a decrease of $10.0 million compared to $18.9 million for the six months ended June 30, 2001, and, as a percentage of sales, decreased to 5.6% as compared to 7.2% for the six months ended June 30, 2001. The Company's amortization expense decreased significantly for the six months ended June 30, 2002 due to the write-off of goodwill associated with the acquisition of Access One in the third quarter of 2001. Additionally, the Company implemented Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which established the impairment approach rather than amortization for goodwill, resulting in reduced amortization for the six months ended June 30, 2002 (see Note 1 of the Notes to the Consolidated Financial Statements).

Interest Income. Interest income was $183,000 for the six months ended June 30, 2002 versus $831,000 for the six months ended June 30, 2001. Interest income for the six months ended June 30, 2002 was lower due to the Company's lower average cash balances and a decrease in interest rates during the six months ended June 30, 2002 as compared to 2001.

Interest Expense. Interest expense was $4.4 million for the six months ended June 30, 2002 as compared to $3.1 million for the six months ended June 30, 2001. The increase in interest expense is attributed to higher yielding debt instruments associated with the exchange of the Company's 4 1/2% and 5% Notes for 8% and 12% Notes and the MCG credit facility restructuring (see Notes 2, 3 and 5 of the Notes to Consolidated Financial Statements and "Liquidity and Capital Resources"). In addition, interest expense for the six months ended June 30, 2002 includes the write-off of deferred financing costs of $364,000 in connection with the bond restructuring. As described in Note 2 of the Notes to Consolidated Financial Statements, the 8% convertible notes due 2011 were accounted for as a troubled debt restructuring and, as such, interest expense related to the notes is excluded from net income. For the six months ended June 30, 2002, $1.3 million of interest expense related to the notes was excluded from net income.

Other, Net. Net other expenses were $816,000 for the six months ended June 30, 2002 compared to $80,000 for the six months ended June 30, 2001. The amount for the six months ended June 30, 2002 primarily consists of costs in connection with the Company's restructuring of its convertible subordinated notes (see Note 2 of the Notes to Consolidated Financial Statements).

Provision for Income Taxes. At June 30, 2002 and 2001, a full valuation allowance has been provided against the Company's net operating losses carryforwards and other deferred tax assets. Since the amounts and extent of the

Company's future earnings are not determinable with a sufficient degree of probability to recognize the deferred tax assets in accordance with the requirements of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the Company has recorded a full valuation allowance on the net deferred tax assets. For the six months ended June 30, 2002, although the Company has net income, no provision for income taxes has been reflected on the statement of operations due to the full valuation allowance. The Company has not recorded any income tax expense or benefit for the six months ended June 30, 2001 because the Company incurred losses during this period as well as maintained a full valuation allowance at June 30, 2001. There can be no assurances that the Company will realize the benefit of any net operating loss carryforwards on future taxable income generated by the Company due to the "change of ownership" provisions of the Internal Revenue Code Section 382 (see Liquidity and Capital Resources, Other Matters).

Cumulative Effect of an Accounting Change. The Company adopted Emerging Issues Task Force Abstract No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in the six months ended June 30, 2001. The cumulative effect of the adoption of this change in accounting principle resulted in a non-cash charge to operations of $36.8 million in the six months ended June 30, 2001, representing the change in fair value of contingent redemption features of warrants and common stock held by AOL from issuance on January 5, 1999 through June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash requirements arise primarily from the subsidiaries' operational needs, the subsidiaries' capital expenditures, and the debt service obligations of the subsidiaries and of Talk America Holdings, Inc. Since Talk America Holdings, Inc. conducts all of it operations through its subsidiaries, primarily Talk America Inc., it relies on dividends, distributions and other payments from its subsidiaries to fund its obligations. The MCG Credit Facility Agreement and related agreements contain certain covenants, including covenants that may restrict such payments by the subsidiaries to Talk America Holdings, Inc. (see Note 5 of the Notes to Consolidated Financial Statements).

Contractual obligations of the Company as of June 30, 2002 are summarized as follows (in thousands):

Contractual Obligations (3)	Total	1 year or less	2 - 3 Years	4 - 5 Years
Talk America Holdings, Inc.:				

8% Convertible notes due 2011(1)	$65,159	$2,057	$2,940	$3,182
12% Senior subordinated notes due 2007	70,653	--	--	--
8% Convertible senior subordinated notes due 2007 (2)	4,168	--	--	--
4.5% Convertible subordinated notes due 2002	3,910	3,910	--	--
5% Convertible subordinated notes due 2004	670	--	670	--
Talk America Inc. and other subsidiaries:				
Senior Credit Facility	15,000	5,000	10,000	--
Capital Lease Obligations	262	204	58	--
Other Long-Term Obligations	1,693	1,693	--	--
Total Contractual Obligations	$161,515	$12,864	$13,668	$3,182

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(1) The 2011 Convertible Notes include $33.6 million of principal and $31.5 million of future accrued interest (see Note 3 of the Notes to Consolidated Financial Statements). The 2011 Convertible Notes are subject to mandatory redemption, at the option of the holder, in September 2006 and September 2008 at par plus accrued interest.

(2) The 8% Notes include $2.8 million of principal and $1.3 million of future accrued interest (see Note 2 of the Notes to Consolidated Financial Statements).

(3) Excluded from these contractual obligations are operating lease obligations and network service obligations. The Company leases office space and equipment under operating lease agreements. Certain leases contain renewal options and purchase options, and generally provide that the Company shall pay for insurance, taxes and maintenance. As of December 31, 2001, the Company had future minimum annual lease obligations under noncancellable operating leases with terms in excess of one year as follows: 2002 - $1.8 million, 2003 - $1.7 million, 2004 - $1.4 million, 2005 - $0.9 million, 2006 - $0.4 million and 2007 and thereafter - $0.3 million. The Company is also party to various network service agreements, which contain certain minimum usage commitments. The largest contract establishes pricing and provides for annual minimum payments for the years ended December 31, as follows: 2002 - $22.2 million, 2003 - $22.8 million and 2004 - $27.9 million. A separate contract with a different vendor establishes pricing and provides for annual minimum payments for the years ended December 31, as follows: 2002 - $3.0 million, 2003 - $6.0 million and 2004 - $3.0 million. As a consequence of these minimum network service obligations, there can be no assurances that the Company will be able to realize the most effective network cost.

The Company relies on internally generated funds and cash and cash equivalents on hand to fund its capital and financing requirements. The Company

had $30.7 million of cash and cash equivalents as of June 30, 2002, and $22.1 million as of December 31, 2001.

Net cash provided by operating activities was $17.1 million for the six months ended June 30, 2002 compared to net cash used in operating activities of

$13.5 million for six months ended June 30, 2001. For the six months ended June 30, 2002, the major contributors to the net cash provided by operating activities were the net income of $17.5 million and non-cash charges of $16.0 million primarily consisting of provision for doubtful accounts of $6.8 million and depreciation and amortization of $8.9 million. These amounts were offset by an increase in accounts receivable of $3.1 million and a decrease in accounts payable of $12.2 million. For the six months ended June 30, 2001, the net cash used in operating activities was mainly generated by the net loss of $72.8 million, an increase in accounts receivable of $47.1 million offset by non-cash items of $106.4 million primarily consisting of provision for doubtful accounts of $50.5 million, depreciation and amortization of $18.9 million and the cumulative effect of an accounting change for contingent redemptions of $36.8 million.

Net cash used in investing activities was $3.3 million during the six months ended June 30, 2002, which consisted of capitalized software development costs of $1.1 million and capital expenditures for the purchase of equipment of $2.1 million. Net cash used in investing activities was $2.4 million during the six months ended June 30, 2001, which primarily related to the purchase of equipment and intangibles.

Net cash used in investing activities was $2.5 million during the three months ended June 30, 2002, which consisted of capitalized software development costs of $0.6 million and capital expenditures for the purchase of equipment of $1.9 million. The Company anticipates incurring for the full year of 2002 capital expenditures of between $4 and $5 million and capitalized software development costs of between $2 and $3 million.

Net cash used in financing activities for the six months ended June 30, 2002 was $5.2 million compared to $84,000 for the six months ended June 30, 2001. The net cash used in financing activities for the six months ended June 30, 2002 was primarily attributable to payment of borrowings under the Company's credit facility of $2.5 million, payments under 8% Convertible notes due 2011of $1.2 million, payments in connection with exchange of the Company's 4.5% Notes for 8% Notes of $470,000 and payments under capital lease obligations.

The Company generally does not have a significant concentration of credit risk with respect to net trade accounts receivable, due to the large number of end-users comprising the Company's customer base.

CONVERTIBLE SUBORDINATED NOTES AND EXCHANGE OFFERS (see Note 2 of the Notes to Consolidated Financial Statements)

Effective April 4, 2002, the Company completed the exchange of $57.9 million of the $61.8 million outstanding principal balance of its 4 1/2% Convertible Subordinated Notes ("4 1/2% Notes") that mature on September 15, 2002 into $53.2 million of new 12% Senior Subordinated PIK Notes due August 2007 ("12% Notes") and $2.8 million of new 8% Convertible Senior Subordinated Notes due August 2007 ("8% Notes") and cash paid of $0.5 million. In addition, the Company exchanged $17.4 million of the $18.1 million outstanding principal balance of its 5% Convertible Subordinated Notes ("5% Notes") that mature on December 15, 2004 into $17.4 million of the new 12% Notes.

AOL AGREEMENTS (see Note 3 of the Notes to Consolidated Financial Statements)

On September 19, 2001, the Company restructured its financial obligations with AOL that arose under the 1999 Investment Agreement and also ended its marketing relationship with AOL effective September 30, 2001 (collectively the "AOL Restructuring"). In connection with the AOL Restructuring, the Company and AOL entered into a Restructuring and Note Agreement ("Restructuring Agreement") pursuant to which the Company has outstanding $33.6 million principal amount of its 8% secured convertible notes due September 2011, as of June 30, 2002. With the issuance of additional shares under the Restructuring Agreement, AOL held

7,200,000 shares of Company common stock.

SENIOR CREDIT FACILITY (see Note 5 of the Notes to Consolidated Financial Statements)

The Company's principal operating subsidiaries have a Credit Facility Agreement with MCG Finance Corporation ("MCG"), providing for a term loan of up to $20.0 million maturing on June 30, 2005 and a line of credit facility

permitting such subsidiaries to borrow up to an additional $30.0 million available through June 30, 2003. The availability of the line of credit facility is subject, among other things, to the successful syndication of that facility. The Company does not anticipate having any availability under this line of credit facility. Loans under the Credit Facility Agreement bear interest at a rate equal to either (a) the Prime Rate, or (b) LIBOR, plus, in each case, the applicable margin. The applicable margin is 7.0% for borrowings accruing interest at LIBOR and 6.0% for borrowings accruing interest at the Prime Rate.

The Credit Facility Agreement subjects the Company and its subsidiaries to certain restrictions and covenants related to, among other things, liquidity, per-subscriber-type revenue, subscriber acquisition costs and interest coverage ratio requirements. The principal of the term loan is paid in quarterly installments of $1.25 million on the last calendar day of each fiscal quarter commencing on September 30, 2001, and is fully repaid by June 30, 2005. The loans under the Credit Facility Agreement are secured by a pledge of all of the assets of the subsidiaries of the Company that are parties to that agreement. In addition, the Company has guaranteed the obligations of those subsidiaries under the Credit Facility Agreement and related documents; the Company's guarantee subjects the Company to certain restrictions and covenants, including a prohibition against the payment of dividends in respect of the Company's equity securities, except under certain limited circumstances. In connection with the AOL Restructuring, MCG entered into an Intercreditor Agreement with AOL. At June 30, 2002, $15.0 million principal balance remained outstanding under the term loan facility and no amounts were outstanding or available under the line of credit facility.

OTHER MATTERS

The Company's provision of telecommunication services is subject to government regulation. Changes in existing regulations could have a material adverse effect on the Company. The Company's local telecommunication services are provided almost exclusively through the use of ILEC Unbundled Network Elements ("UNE"), and it is primarily the availability of costs-based UNE rates that enables the Company to price its local telecommunications services competitively. On May 13, 2002, the United Stated Supreme Court released an opinion in Verizon Communications et al v. Federal Communications Commission upholding the FCC's decision to adopt the "total element long-run incremental cost" ("TELRIC") methodology for pricing UNEs. On December 12, 2001, the FCC initiated its so-called UNE Triennial Review rulemaking in which it intends to review all UNEs and determine whether ILECs should continue to be required to provide them to competitors. Among other things, the FCC has indicated that it will consider whether ILECs should continue to be required to provide the "local switching" UNE, an essential component of the UNE-P combination. Any curtailment by the FCC in the availability of the local switching UNE would materially impair the Company's ability to provide local telecommunications services, and could eliminate the Company's capability to provide local telecommunications services entirely. On May 24, 2002, the United States Court of Appeals for the D.C. Circuit released an opinion in United States Telecom Association v. Federal

Communications Commission remanding to the FCC for further consideration the Unbundled Network Element Remand Order, which may provide the FCC with justification for significantly reducing the unbundling obligations of the ILECs as part of the UNE Triennial Review. A petition for rehearing en banc has been filed by the FCC with the United States Court of Appeals for the D.C. Circuit.

The FCC requires the Company and other providers of telecommunication services to contribute to the USF, which helps to subsidize the provision of local telecommunication services and other services to low-income consumers, schools, libraries, health care providers, and rural and insular areas that are costly to serve. The FCC is currently considering modifications to the USF program that may go into effect as early as the end of 2002. Any changes to the methodology used in the calculation of the collection and payment of USF charges may have an adverse impact on the Company's gross margin.

At December 31, 2001, the Company had net operating loss (NOL) carryforwards for federal income tax purposes of $262.8 million. Due to the "change of ownership" provisions of the Internal Revenue Code Section 382, the availability of the Company's net operating loss and credit carryforwards may be subject to an annual limitation against taxable income in future periods if a change of ownership of more than 50% of the value of the Company's stock should occur within a three-year testing period. Many of the changes that affect these percentage change determinations, such as changes in the Company's stock ownership, are outside the Company's control. A more-than-50% cumulative change in ownership for purposes of the Section 382 limitation occurred on August 31, 1998 and October 26, 1999. As a result of such changes, certain of the Company's

carryforwards are limited. As of December 31, 2001, approximately $64.0 million of NOL carryforwards are not available to offset future income. In addition, based on information currently available to the Company, the Company believes that the change of ownership percentage was approximately 45% for the applicable three-year testing period. If, during the current three-year testing period, the Company experiences an additional more-than-50% ownership change under Section 382, the amount of the NOL carryforward available to offset future taxable income may be further and substantially reduced. To the extent the Company's ability to use these net operating loss carryforwards against any future income is limited, its cash flow available for operations and debt service would be reduced. There can be no assurance that the Company will realize the benefit of any carryforwards.

The Company is a party to a number of legal actions and proceedings arising from the Company's provision and marketing of telecommunications services, as well as certain legal actions and regulatory investigations and enforcement proceedings arising in the ordinary course of business. The Company believes that the ultimate outcome of the foregoing actions will not result in liability that would have a material adverse effect on the Company's financial condition or results of operations. However, it is possible that, because of fluctuations in the Company's cash position, the timing of developments with respect to such matters that require cash payments by the Company, while such payments are not expected to be material to the Company's financial condition, could impair the Company's ability in future interim or annual periods to continue to implement its business plan, which could affect its results of operations in future interim or annual periods.

While the Company believes that it has access, albeit limited, to new capital in the public or private markets to fund its ongoing cash requirements, there can be no assurance as to the timing, amounts, terms or conditions of any such new capital or whether it could be obtained on terms acceptable to the Company. Accordingly, the Company anticipates that its cash requirements generally must be met from the Company's cash-on-hand and from cash generated from operations. Based on its current projections for operations and having restructured the MCG facility and most of its outstanding convertible notes indebtedness through the exchange offers, the Company believes that its cash-on-hand and its cash flow from operations will be sufficient to fund its capital expenditures, its debt service obligations, including the increased interest expense of its outstanding indebtedness, and the expenses of conducting its operations for at least the next twelve months. However, there can be no assurance that the Company will be able to realize its projected cash flows from operations, which is subject to the risks and uncertainties discussed above.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debt, goodwill and intangible assets, income taxes, contingencies and litigation. The Company bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Recognition of Revenue. The Company derives its revenues from local and long distance phone services, primarily local services bundled with long distance services, long distance services, inbound toll-free service and dedicated private line services for data transmission. The Company recognizes revenue from voice, data and other telecommunications related services in the period in which subscribers uses the related service. Allowances for doubtful accounts are maintained for estimated losses resulting from the failure of its customers to make required payments and for uncollectible usage.

Deferred revenue represents the unearned portion of local telecommunication services and features that are billed one month in advance. In addition, it includes the amortization of a non-refundable prepayment received in 1997 in connection with an amended telecommunications services agreement with Shared Technologies Fairchild, Inc. The payment is amortized over the five-year term of the agreement, which expires October 2002. The amount included in revenue was

$1.9 million in each of the quarters ended June 30, 2002 and 2001. The remaining amount of $2.5 million will be included in revenue during the remainder of 2002. This agreement is terminable by either party on thirty days notice. Termination by either party would accelerate recognition of the deferred revenue.

Allowance for Doubtful Accounts. The Company reviews accounts receivable, historical bad debt, and customer credit-worthiness through customer credit scores, current economic trends, changes in customer payment history and acceptance of the Company's calling plans and fees when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company's accounts receivable balance was $23.0 million, net of allowance for doubtful accounts of $17.1 million, as of June 30, 2002.

Valuation of Long-Lived Assets and Intangible Assets with a Definite Life. The Company continually reviews the recoverability of the carrying value of long-lived assets, including intangibles with a definite life for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. When such events occur, the Company compares the carrying amount of the assets to the undiscounted expected future cash flows. Factors the Company considers important that could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results
- Significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business
- Significant negative industry or economic trends
- Significant decline in the Company's stock price for a sustained period and market capitalization relative to net book value

If this comparison indicates there is impairment, the amount of the impairment loss to be recorded is calculated by the excess of the net assets' carrying value over its fair value and is typically calculated using discounted expected future cash flows.

Goodwill. Goodwill represents the cost in excess of net assets of acquired companies. Effective January 1, 2002, with the adoption of SFAS No. 142, goodwill (comprised of goodwill acquired in the Access One acquisition in August 2000) will not be amortized, but rather will be tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Prior to January 1, 2002 goodwill and intangibles were amortized on a straight-line basis over periods ranging from 5 years to 15 years. Impairment testing for goodwill is performed at a reporting unit level. An impairment loss would generally be recognized when the carrying amount of the reporting units' net assets exceeds the estimated fair value of the reporting unit. Prior to January 1, 2002, goodwill was tested for impairment in a manner consistent with long-lived assets and intangible assets with a definite life. The Company completed the transitional assessment of goodwill under the requirements of SFAS 142 and determined that the fair value of the reporting unit exceeds the carrying amount, thus the goodwill is not considered impaired.

Software Development Costs. Direct development costs associated with internal-use computer software are accounted for under Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and are capitalized including external direct costs of material and services and payroll costs for employees devoting time to the software projects. Costs incurred during the preliminary project stage, as well as for maintenance and training, are expensed as incurred. Amortization is provided on a straight-line basis over the shorter of 3 years or the estimated useful life of the software.

Income Taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The Company records a valuation allowance to reduce its deferred tax assets in an amount that is more likely than not to be realized. The Company has provided a full valuation allowance for the net deferred tax assets for the estimated future tax effects attributable to temporary differences between the basis of assets and liabilities for financial and tax reporting purposes as of June 30, 2002. If the Company continues to be profitable in future quarters at levels which cause management to conclude that it is more likely than not that the Company will realize all or a portion of the NOL carryforward, the Company would record the estimated net realizable value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to the Company's combined federal and state effective rates.

Legal Proceedings. The Company is a party to a number of legal actions and proceedings arising from the Company's provision and marketing of telecommunications services, as well as certain legal actions and regulatory investigations and enforcement proceedings arising in the ordinary course of business. Management's current estimated range of liability related to some of the pending litigation is based on claims for which management can estimate the amount and range of loss. The Company recorded the minimum estimated liability related to those claims, where there is a range of loss. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, the Company will assess the potential liability related to the Company's pending litigation and revise its estimates. Such revisions in the Company's estimates of the potential liability could materially affect its results of operations and financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK:

In the normal course of business, the financial position of the Company is subject to a variety of risks, such as the collectibility of its accounts receivable and the receivability of the carrying values of its long-term assets. The Company's long-term obligations consist primarily of its own notes and credit facility. The Company does not presently enter into any transactions involving derivative financial instruments for risk management or other purposes due to the stability in interest rates in recent times and because management does not consider the potential impact of changes in interest rates to be material.

The Company's available cash balances are invested on a short-term basis (generally overnight) and, accordingly, are not subject to significant risks associated with changes in interest rates. Substantially all of the Company's cash flows are derived from its operations within the United States and the Company is not subject to market risk associated with changes in foreign exchange rates.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES.

In connection with the completion of the exchange offers for its 4 1/2% and 5% Notes on April 4, 2002 (as further described in Note 2 of the Consolidated Financial Statements), the Company issued a total of $70.7 million principal amount of its new 12% Notes and $2.8 million principal amount of its new 8% Notes. The issuance of such securities were made in reliance on Section 3(a) (9) of the Securities Act of 1933.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Amendment to Employment Agreement, dated June 17, 2002, between the Company and Kevin Griffo (filed herewith). *

10.2 Interconnection Agreement between BellSouth Telecommunications, Inc., The Other Phone Company, Inc. d/b/a Access One Communications, The Other Phone Company, Inc. d/b/a Talk America Inc., (NOT in Florida) and Talk America Inc. dated May 13, 2002 (filed herewith).

99.1 Certification of Gabriel Battista Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of David G. Zahka Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

During the quarter ended June 30, 2002, the Company filed no Current Reports on Form 8-K.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TALK AMERICA HOLDINGS, INC.

Date: August 13, 2002 By: /s/ Gabriel Battista

Gabriel Battista
Chairman of the Board of Directors,
Chief Executive Officer and Director

Date: August 13, 2002 By: /s/ David G. Zahka

David G. Zahka
Chief Financial Officer
(Principal Financial Officer)

Date: August 13, 2002 By: /s/ Thomas M. Walsh

Thomas M. Walsh
Senior Vice President - Finance
(Principal Accounting Officer)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 0-11258

WorldCom, Inc.
(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	**58-1521612** (I.R.S. Employer Identification No.)
500 Clinton Center Drive, Clinton, Mississippi (Address of principal executive offices)	**39056** (Zip Code)

(601) 460-5600
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

WorldCom group Stock, $.01 Par Value
MCI group Stock, $.01 Par Value
Rights to Purchase Series 4 Preferred Stock
Rights to Purchase Series 5 Preferred Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 28, 2002 was:

WorldCom group Stock, $.01 par value: $22,156,502,684
MCI group Stock, $.01 par value: $810,400,477

Common shares outstanding as of February 28, 2002, net of treasury shares:

WorldCom group Stock: 2,962,645,459
MCI group Stock: 118,325,109

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement of the registrant for the registrant's 2002 Annual Meeting of Shareholders, which definitive proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year end of December 31, 2001, are incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The following statements are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995:

(i) any statements contained or incorporated herein regarding possible or assumed future results of operations of WorldCom's business, anticipated cost savings or other synergies, the markets for WorldCom's services and products, anticipated capital expenditures, the outcome of euro conversion efforts, regulatory developments or competition;

(ii) any statements preceded by, followed by or that include the words "intends," "estimates," "believes," "expects," "anticipates," "should," "could," or similar expressions; and

(iii) other statements contained or incorporated by reference herein regarding matters that are not historical facts.

Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements; factors that could cause actual results to differ materially include, but are not limited to:

- economic uncertainty;
- the effects of vigorous competition;
- the impact of technological change on our business, alternative technologies, and dependence on availability of transmission facilities;
- risks of international business;
- regulatory risks in the United States and internationally;
- contingent liabilities;
- uncertainties regarding the collectibility of receivables;
- risks associated with debt service requirements and our financial leverage;
- uncertainties associated with the success of acquisitions;
- the ongoing war on terrorism; and
- the other risks referenced from time to time in WorldCom's filings with the Securities and Exchange Commission.

Potential purchasers of WorldCom capital stock are cautioned not to place undue reliance on such statements, which speak only as of the date thereof.

The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by WorldCom or persons acting on its behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future.

PART I

ITEM 1. BUSINESS

General

Organized in 1983, WorldCom, Inc., a Georgia corporation, provides a broad range of communications services to both U.S. and non-U.S. based businesses and consumers. We are a global communications company utilizing a strategy based on being able to provide service through our own facilities throughout the world instead of being restricted to a particular geographic location. We call this our "on-net" strategy. The on-net approach allows our customers to send data or voice communications across town, across the U.S., or to any of our networks in Europe or Asia, often without ever leaving our networks. The on-net approach provides our customers with superior reliability and low operating costs. Our core business is communications services, which includes voice, data, Internet and international services.

On June 7, 2001, our shareholders approved a recapitalization involving the creation of two separately traded tracking stocks:

- WorldCom group stock, which is intended to reflect the performance of our data, Internet, international and commercial voice businesses and is quoted on The Nasdaq National Market under the trading symbol "WCOM", and
- MCI group stock, which is intended to reflect the performance of our consumer, small business, wholesale long distance voice and data, wireless messaging and dial-up Internet access businesses and is quoted on The Nasdaq National Market under the trading symbol "MCIT".

In connection with the recapitalization, we amended our articles of incorporation to replace our existing common stock with two new series of common stock that are intended to reflect, or track, the performance of the businesses attributed to the WorldCom group and the MCI group. Effective with the recapitalization on June 7, 2001, each share of our existing common stock was changed into one share of WorldCom group stock and 1⁄25 of a share of MCI group stock.

A tracking stock is a separate class of a company's common stock intended to provide a return to investors based upon the financial performance of a distinct business unit of the company, sometimes referred to as the targeted business. These targeted businesses are collections of businesses that we have grouped together in order for us to issue WorldCom group stock and MCI group stock. The ownership of the targeted business does not change, and while each of the classes of stock trade separately, all shareholders are common shareholders of a single company, WorldCom, and are subject to all risks of an investment in WorldCom as a whole.

During the second quarter of 2001, we declared the initial quarterly dividend for the MCI group stock. A cash dividend of $0.60 per share of MCI group stock, or approximately $70 million in the aggregate, was paid on October 15, 2001 to shareholders of record as of the close of business on September 28, 2001. Dividends of $0.60 per share of MCI group stock were also declared during the third and fourth quarters of 2001 which have been or will be paid in 2002.

The MCI group was initially allocated notional debt of $6 billion and our remaining debt was allocated on a notional basis to the WorldCom group. We intend, for so long as the WorldCom group stock and the MCI group stock remains outstanding, to include in our filings under the Securities Exchange Act of 1934, as amended, the combined financial statements of each of the WorldCom group and the MCI group. These combined financial statements will be prepared in accordance with accounting principles generally accepted in the United States, and in the case of annual financial statements, will be audited. These combined financial statements are not legally required under current law or SEC regulations.

Voting rights of the holders of the WorldCom group stock and the MCI group stock are prorated based on the relative market values of WorldCom group stock and MCI group stock. We will conduct shareholder meetings that encompass all holders of voting stock. The WorldCom group and the MCI group shareholders will vote together as a single class on all matters brought to a vote of shareholders, including the election of our directors.

Our board of directors may at any time convert each outstanding share of MCI group stock into shares of WorldCom group stock at 110% of the relative trading value of MCI group stock for the 20 days prior to the announcement of the conversion. No premium will be paid on a conversion that occurs after June 7, 2004.

If all or substantially all of the WorldCom group or MCI group assets are sold, either: (i) the relevant shareholders will receive a distribution equal to the fair value of the net proceeds of the sale, either by special dividend or by redemption of shares; or (ii) each outstanding share of MCI group stock will be converted into shares of WorldCom group stock at 110% or 100% of the relative trading value of MCI group stock for a 10 trading day period following the sale.

We serve as a holding company for our subsidiaries' operations. References herein to WorldCom, "we," "our," or "us" include WorldCom, Inc. and our subsidiaries, unless the context otherwise requires. Additionally, information in this document has been revised to reflect the stock splits of our common stock.

Business Combinations

Intermedia. On July 1, 2001, we acquired Intermedia Communications Inc. for approximately $5.8 billion, including assumed long-term debt, pursuant to the merger of a wholly owned subsidiary with and into Intermedia, with Intermedia continuing as the surviving corporation and as a subsidiary of WorldCom. As a result of the Intermedia merger, we acquired a controlling interest in Digex, Incorporated, or Digex, a provider of managed Web and application hosting services. In connection with the Intermedia merger, stockholders of Intermedia received one share of WorldCom group stock (or 57.1 million WorldCom group shares in the aggregate) and 1/25 of a share of MCI group stock (or 2.3 million MCI group shares in the aggregate) for each share of Intermedia common stock they owned. Holders of Intermedia preferred stock, other than Intermedia's 13.5% Series B Redeemable Exchangeable Preferred Stock due 2009, or Intermedia Series B Preferred Stock, received one share of a class or series of our preferred stock, with substantially identical terms, which were established upon consummation of the Intermedia merger. As a result of the merger with Intermedia, we own approximately 90% of the voting securities of Intermedia.

Upon effectiveness of the merger with Intermedia, the then outstanding and unexercised options for shares of Intermedia common stock were converted into options exercisable for an aggregate of approximately 10 million shares of WorldCom group stock having the same terms and conditions as the Intermedia options, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 1.0319. The merger with Intermedia was accounted for as a purchase.

The purchase price in the Intermedia merger was allocated based on appraised fair values at the date of acquisition. This resulted in an excess purchase price over net assets acquired of $5.1 billion of which $67 million was allocated to customer lists, which will be amortized over approximately four years on a straight line basis. The remaining excess of $5.0 billion has been allocated to goodwill and tradename which are not subject to amortization and the goodwill is not expected to be deductible for tax purposes.

In connection with the Intermedia merger, the Antitrust Division of the Department of Justice required us to dispose of Intermedia's Internet service provider business, which provided integrated Internet connectivity solutions and effective December 1, 2001, we sold substantially all of the Internet related assets for approximately $12 million. In addition to this required divestiture, we also committed to a plan to sell Intermedia's Advanced Building Network business, which provides centralized telecommunications services in multi-tenant commercial office buildings, and the systems integration business through which Intermedia sells, installs, operates and maintains business telephony customer premise equipment for its customers. We included the appraised fair values of these assets to be disposed of in our initial allocation of the Intermedia purchase price and also included accrued anticipated losses expected to be incurred through disposal date. Any difference between the actual results of operations and the amounts accrued will result in an adjustment of goodwill unless there is a difference resulting from a post-merger event. We anticipate that we will complete the planned disposals of the remaining identified businesses before the third quarter of 2002.

Since the Intermedia merger, we initiated plans to improve cash flow and operating results by reorganizing and restructuring Intermedia's operations. These plans include workforce reductions and other administrative cost savings, the discontinuance of all product lines with unacceptable or negative margins and the ultimate disposal of all assets associated with such product lines or businesses.

SkyTel Communications. On October 1, 1999, we acquired SkyTel Communications, Inc., pursuant to the merger of SkyTel with and into a wholly owned subsidiary of WorldCom. Upon consummation of the SkyTel merger, the wholly owned subsidiary was renamed SkyTel Communications, Inc. SkyTel is a leading provider of nationwide messaging services in the United States. SkyTel's principal operations include one-way messaging services in the United States, advanced messaging services on the narrow band personal communications services network in the United States and international one-way messaging operations.

As a result of the SkyTel merger, each outstanding share of SkyTel common stock was converted into the right to receive 0.3849 shares of WorldCom common stock, par value $.01 per share, or approximately 23 million WorldCom common shares in the aggregate. Holders of SkyTel's $2.25 Cumulative Convertible Exchangeable Preferred Stock received one share of WorldCom Series C $2.25 Cumulative Convertible Exchangeable Preferred Stock for each share of SkyTel preferred stock held. The SkyTel merger was accounted for as a pooling-of-interests; and accordingly, our financial statements for periods prior to the SkyTel merger have been restated to include the results of SkyTel.

MCI. On September 14, 1998, we acquired MCI Communications Corporation for approximately $40 billion, pursuant to the merger of MCI with and into a wholly owned subsidiary of WorldCom. Upon consummation of the MCI merger, the wholly owned subsidiary was renamed MCI Communications Corporation. MCI became a wholly owned subsidiary of WorldCom. Through the merger with MCI, we acquired one of the world's largest and most advanced digital networks, connecting local markets in the United States to more than 280 countries and locations worldwide.

As a result of the merger with MCI, each outstanding share of MCI common stock was converted into the right to receive 1.86585 shares of WorldCom common stock or approximately 1.13 billion WorldCom common shares in the aggregate, and each share of MCI Class A common stock outstanding (all of which were held by British Telecommunications plc) was converted into the right to receive $51.00 in cash or approximately $7 billion in the aggregate. The funds paid to British Telecommunications were obtained by WorldCom from (i) available cash as a result of our $6.1 billion public debt offering in August 1998; (ii) the sale of MCI's Internet backbone facilities and wholesale and retail Internet business to Cable and Wireless plc for $1.75 billion in cash on September 14, 1998; (iii) the sale of MCI's 24.9% equity stake in Concert Communications Services to British Telecommunications for $1 billion in cash on September 14, 1998; and (iv) availability under our commercial paper program and credit facilities.

Upon effectiveness of the merger with MCI, the then outstanding and unexercised options exercisable for shares of MCI common stock were converted into options exercisable for an aggregate of approximately 125 million shares of WorldCom common stock having the same terms and conditions as the MCI options, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 1.86585. The merger with MCI was accounted for as a purchase.

Embratel. On August 4, 1998, MCI acquired a 51.79% voting interest and a 19.26% economic interest in Embratel Participações S.A., Brazil's facilities-based national and international communications provider, for approximately R$2.65 billion (U.S. $2.3 billion). The purchase price was paid in local currency installments, of which R$1.06 billion (U.S. $916 million) was paid on August 4, 1998, R$795 million (U.S. $442 million) was paid on August 4, 1999, and the remaining R$795 million (U.S. $444 million) was paid on August 4, 2000. Embratel provides domestic long distance and international telecommunications services in Brazil, as well as over 40 other communications services, including leased high-speed data, Internet, frame relay, satellite and packet-switched services. Operating results for Embratel were consolidated in our accompanying consolidated financial statements from the date of the MCI merger through 2000.

During the second quarter of 2001, we reached a long-term strategic decision to restructure our investment in Embratel. The restructuring included the resignation of certain Embratel board of directors seats, the irrevocable obligation to vote a portion of our common shares in a specified manner and the transfer of certain economic rights associated with such shares to an unrelated third party. Based on these actions, the accounting principles generally accepted in the United States prohibit the continued consolidation of Embratel's results. Accordingly, we have deconsolidated Embratel's results effective January 1, 2001.

CompuServe. On January 31, 1998, WorldCom acquired CompuServe Corporation for approximately $1.3 billion, pursuant to the merger of a wholly owned subsidiary of WorldCom, with and into CompuServe. Upon consummation of the merger with CompuServe Corporation, CompuServe Corporation became a wholly owned subsidiary of WorldCom.

As a result of the merger with CompuServe Corporation, each share of CompuServe Corporation common stock was converted into the right to receive 0.609375 shares of WorldCom common stock or approximately 56 million WorldCom common shares in the aggregate. Prior to the merger with CompuServe Corporation, CompuServe Corporation operated primarily through two divisions: Interactive Services and Network Services. Interactive Services offered worldwide online and Internet access services for consumers, while Network Services provided worldwide network access, management and applications, and Internet services to businesses. The merger with CompuServe Corporation was accounted for as a purchase.

ANS. On January 31, 1998, we also acquired ANS Communications, Inc. from America Online, Inc. for approximately $500 million, and entered into five year contracts with AOL under which WorldCom and its subsidiaries provide network services to AOL. Additionally, AOL acquired CompuServe's Interactive Services division and received a $175 million cash payment from WorldCom. WorldCom retained the CompuServe Network Services division. ANS provided Internet access to AOL and AOL's subscribers in the United States, Canada, the United Kingdom, Sweden and Japan. The transaction with AOL was accounted for as a purchase.

Brooks Fiber Properties. On January 29, 1998, WorldCom acquired Brooks Fiber Properties, Inc. pursuant to the merger of a wholly owned subsidiary of WorldCom, with and into Brooks Fiber Properties. Upon consummation of the merger with Brooks Fiber Properties, Brooks Fiber Properties became a wholly owned subsidiary of WorldCom. Prior to the merger, Brooks Fiber Properties acquired and constructed its own state-of-the-art fiber optic networks and facilities and leased network capacity from others to provide long distance carriers, Internet Service Providers, wireless carriers and business, government and institutional end users with an alternative to the incumbent local exchange carriers for a broad array of high quality voice, data, video transport and other telecommunications services.

As a result of the merger with Brooks Fiber Properties, each share of Brooks Fiber Properties common stock was converted into the right to receive 2.775 shares of WorldCom common stock or approximately 109 million WorldCom common shares in the aggregate. The merger with Brooks Fiber Properties was accounted for as a pooling-of-interests; and accordingly, our financial statements for periods prior to the merger with Brooks Fiber Properties have been restated to include the results of Brooks Fiber Properties.

BUSINESS

Following are descriptions of the businesses attributed to each of the WorldCom group and the MCI group. Although we are describing these businesses separately in order to give you a better understanding of the assets attributed to each group, the two groups are not separate legal entities.

The assets attributed to the WorldCom group include all of our network assets except voice switches, which are used to forward audio and data information from one point to another, and dial-up Internet modems, and also include cash, investments, buildings, furniture, fixtures and equipment, and the goodwill, other intangible assets, other long-term assets and other current assets associated with the businesses attributed to the WorldCom group. The assets attributed to the MCI group include voice switches, dial-up Internet modems and the goodwill, other intangible assets, other long-term assets and other current assets associated with the businesses attributed to the MCI group. For a further discussion of the assets attributed to the groups and the allocation methods used to allocate the assets, see the management's discussion and analysis of financial condition and results of operations, which is incorporated by reference herein.

Certain financial information about operations by segment and by geographic area for 1999, 2000 and 2001 is included in note 14 to our notes to our consolidated financial statements and is incorporated herein by reference.

WorldCom Group Operations

Overview

Our businesses attributed to the WorldCom group include:

- data services such as frame relay, asynchronous transfer mode and Internet protocol networks which provide a full spectrum of public and private network options for any data transmission requirement;
- Internet related services, including:
  - always-on connections to the Internet, which we refer to as dedicated access;
  - secure communication over the Internet allowing a business to link various sites and employees, which we refer to as a virtual private network;
  - high speed and always-on digital connections to the Internet, which we refer to as digital subscriber lines; and
  - web site management and web-enabled products which provide customers with the hardware, software and monitoring for their web sites;
- the design, implementation and ongoing management of a customer's communications system;
- commercial voice services; and
- international communications services.

We believe we are positioned to utilize these global assets to provide traditional communications services, emerging e-commerce services, and WorldCom-provided managed or outsourced services to customers in major markets around the globe.

The businesses attributed to the WorldCom group accounted for 60.7% of our revenues, 101.7% of our net income and 88.4% of our assets for the year ended December 31, 2001. For the year ended December 31, 2000 the WorldCom group accounted for 58.2% of our revenues, 62.0% of our net income and 85.2% of our assets.

We have extensive networks that connect metropolitan centers and various regions throughout the world. As of December 31, 2001, our networks that connect metropolitan centers covered approximately 58,800 route miles, with an additional 10,900 route miles of local connections to customers worldwide. We also had over 2,500 centers where our equipment connects to the local phone company for call termination, which we call points of presence, 2,092 data switches, which forward information to its proper address, and connected 124 cities across North America, Europe, the Middle East, Africa, Latin America and Asia.

Using our Internet protocol infrastructure, we intend to continue our expansion into higher growth, next generation services, such as virtual private networks which use Internet protocol technology, web centers that allow customers to interact with sales and service agents over the Internet, the telephone or e-mail, and Internet content delivery services. We believe the breadth and scale of these services differentiate our offerings from those of our competitors and meet our customers' increasingly complex communications needs, highlighting the unique quality and reach of our networks.

We are positioning the company for leadership in the high growth segments of our industry. Our merger with Intermedia and resulting controlling interest in Digex provides us with a strong foothold in the managed hosting arena. Managed hosting services include providing the computer hardware, software, network technology and systems management necessary to offer customers comprehensive outsourced web site hosting solutions. We believe this position, combined with our extensive facilities-based network assets and corporate customer base, should create a strong competitor for e-commerce services and a platform for leadership in our target segments of U.S. and non-U.S. based corporations.

Industry

For several years, the communications industry has been undergoing a dramatic transformation due to several factors including:

- technological advances such as the Internet;
- rapid development of new services and products;
- the Telecommunications Act of 1996, or the Telecom Act;
- the deregulation of communications services markets in selected countries around the world; and
- the entry of new competitors in existing and emerging markets.

These are only a few of the forces impacting the communications industry today. However, each of these factors is driven by the rapid development of data services that are replacing traditional voice services. The development of frame relay, asynchronous transfer mode and Internet protocol networks has dramatically transformed the array and breadth of services offered by telecommunications carriers.

The use of the Internet, including intranets and extranets, which are private, secure communications networks, continues to grow, although at a slower pace than in recent years. Internet growth continues to be driven by a number of factors, including expanding availability of high speed or broadband access, improvements in network architectures and increasing numbers of network-enabled applications and devices. In spite of slower overall market growth, the Internet remains an important global communications and commerce medium. The Internet represents an opportunity for enterprises to interact in new and different ways with both existing and prospective customers, employees, suppliers and partners.

The market for data communications and Internet access and related products is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new product and service introductions. We believe that the TCP/IP, where we use fiber optic or copper-based telecommunications infrastructure, will continue to be the primary protocol and transport infrastructure for Internet-related services. TCP/IP combines two protocols, transmission control protocol and Internet protocol, to establish a connection between two devices so that streams of data can be sent between them. Session initiated protocols, or SIPs, are emerging as the basis for carrier-grade platforms from which enterprises will use SIP-enabled devices, such as "Internet telephones" to communicate within and outside the enterprise. Emerging transport alternatives include wireless cable modems and satellite delivery of Internet information. Alternative protocols, which are proprietary or allow systems using different formats to transfer data to communicate with each other, have been and are being developed. We are also participating in trials of next generation, more advanced technology.

Developments in technology are further increasing the capacity and lifespan of previously deployed fiber optic cables. Throughout 2002, we plan to continue to deploy high capacity broadband systems and fiber optic systems, both of which function to connect different networks, and long distance transmission systems which are not subject to signal deterioration. These network investments result in reduced regeneration requirements for long distance transmissions and higher bandwidth capacity from existing fiber optic cables which enhances our ability to serve global businesses cost effectively.

Strategy

Our objective is to use our strategic assets and customer base to be a leader in each of our target segments and deliver long-term sustainable growth. Key elements of our strategy include:

Target high growth data businesses: Our strategy is to focus primarily on higher growth and higher value-added data services that we can provide utilizing our extensive, high quality global networks. We believe this will decrease our reliance on traditional voice services, which have experienced pricing pressures in recent years.

Continue our focus on corporate enterprises: We are continually realigning our businesses with the customer bases they serve. We expect to further focus our resources, including assets, technical expertise and marketing skills, to better serve and grow our presence with corporate enterprise customers.

Rapidly deploy managed web hosting services: We plan to take advantage of the managed web hosting and data capabilities of Digex acquired through our merger with Intermedia. By combining Digex's comprehensive portfolio of hosting products with our extensive networks and customer relationships, we believe we will be able to strongly compete for e-commerce services.

Aggressively expand virtual private network services using internet protocol: Virtual private networks are private corporate communications networks and are often replacing or supplementing private line or frame relay networks as a cost effective and flexible solution for mid-sized and large corporate enterprises. We view this segment as a key contributor to our future growth and an integral part of our high-value service strategy. With our network capabilities, we intend to leverage the global reach and quality of our networks to capitalize on this higher growth and higher margin segment.

Maintain leadership in internet data transport and access: We plan to remain at the forefront of Internet protocol implementation worldwide. We expect Internet protocol services such as virtual private networks and e-business applications to proliferate and we plan to use our tradition of pioneering innovative Internet infrastructure services to expand our Internet value-added services.

Expand globally: We intend to leverage our global network capabilities by integrating existing platforms and deploying selected technologies. We believe this will allow us to expand product coverage while reducing costs. The net result to our customer is a portfolio of competitive products with global reach. We believe that international growth will continue.

Utilize our extensive networks: We plan to continue to utilize our networks to benefit our customers and reduce our costs. The global reach and quality of our networks enable us to provide complex services at low operating costs as a result of our facilities-based, on-net approach. The on-net approach allows our customers to send data streams or voice traffic locally, across the United States, or to any of our facilities-based networks in Europe, Africa or Asia, without ever leaving our networks. We believe this approach lowers our operating costs and provides our customers with superior reliability and quality of service. Our networks are also highly adaptable for future capacity expansions at lower per unit costs, and are designed to cost-effectively integrate future generations of optical-networking components to enhance efficiency and quality.

Description of Services

We provide a broad range of enhanced data and voice communications and managed network services through our direct commercial sales force of approximately 8,000 people. Core services include data services, Internet services, commercial local and long distance voice communications and international communications services.

Data Services

The ability of businesses to transmit data within their company or outside to business partners is a critical function today. Over the last 10 years, businesses made significant investments in software development and equipment purchases to effectively process and transmit this data and information. The Internet also introduced yet another means to communicate digitally worldwide.

We continue to make significant investments in network technologies to satisfy the continuing demand in high bandwidth data processing. Our global frame relay, asynchronous transfer mode and Internet protocol networks provide a full spectrum of public and private network options for any data transmission requirement. The ability to interconnect and to increase the bandwidth capacity of these networks protects customers' existing investments in established networks while taking advantage of the newest technologies.

Frame Relay: Frame relay is a high-speed communications technology that divides the information into frames or packets. Each frame has an address that the network uses to determine the destination of the frame. The frames travel through a series of switches within the frame relay network to arrive at their destination. This technology gives businesses a cost-effective, flexible way to connect local area networks, system network architecture, voice, and Internet protocol-based applications. Local area networks are computer networks which span a relatively small area and system network architecture is a protocol for connecting computers.

Our frame relay service, which is operated over our own facilities, is available in 46 countries and is supplemented by network-to-network interface partnerships that reach additional locations worldwide. These networks allow us to provide our customers around the globe with the highest quality standards of service.

Asynchronous Transfer Mode: Our on-net asynchronous transfer mode service is a technology and protocol structure that integrates data, voice, and video over a single communications network while offering a variety of access speeds and multiple service categories. Asynchronous transfer mode technology is able to service both the local area networks and wide area networks, which are computer networks spanning a large geographic area, providing scalability for users' current and future needs.

Our asynchronous transfer mode services use our highly redundant OC-48 backbone to obtain these networking advantages. OC-48 refers to a type of high speed optical carrier and backbone refers to the network connecting the system. These public data networking services offer a number of different access speeds and support multiple classes of service to meet customers' application needs.

The nature of the services provides users with the security and control of a private network, plus the flexibility and economies of a public network. Our asynchronous transfer mode services allow for the consolidation of applications into a single network service, reducing network, equipment and operational costs.

Data services revenue for 2001 grew by approximately 16.7% to $8.6 billion, or 24.5% of WorldCom total revenues, versus $7.4 billion, or 18.9% of WorldCom total revenues, for 2000 and $5.8 billion, or 16.2% of WorldCom total revenues, for 1999.

Internet Services

As a leading Internet backbone provider, we offer a comprehensive range of Internet access and value-added options, applications and services tailored to meet the needs of businesses and other telecommunications providers. Our Internet products and services include dedicated Internet access, managed networking services and applications (such as virtual private networks), web hosting and electronic commerce and transaction services (such as web centers and credit card transaction processing).

Internet Access and Transport: Our Internet infrastructure is based on our OC-192c and OC-48c optical networks which use a combination of asynchronous transfer mode, frame relay and router technologies at the transport layer for both metropolitan and inter-regional connectivity. This network infrastructure enables customers to access the Internet through dedicated lines. Once connected, the customer's traffic is routed through our networks to the desired Internet location, whether on our networks or elsewhere on the Internet.

Through our networks, we offer the following access products to our customers:

- high speed T1/T3 connections;
- Internet gateway services which provide the hardware and software to link a customer's network to the Internet;
- frame relay to Internet protocol connections;
- asynchronous transfer mode to Internet protocol connections;
- digital subscriber line; and
- metropolitan area exchanges asynchronous transfer mode.

These access options provide the variety of bandwidth choices required for all business types and sizes.

Virtual Private Networks: We provide virtual private networks on public and shared environments for small and large customers. Our customers use virtual private networks to connect their corporate intranets, data centers, remote users, and the World Wide Web via the public Internet.

Our virtual private network service includes built-in encryption, bandwidth prioritization and 24-hour centralized management and monitoring services. Virtual private network services are already available in 26 countries, with continued expansion planned.

Managed Hosting for Business on the Internet: We are a leading managed hosting provider for businesses on the Internet. Our suite of services include:

- web site management services, such as operating and supporting Windows NT and UNIX based dedicated servers;

- application hosting services, such as application support for various operating systems, web servers, directory services, database servers, application servers and commerce suites;
- integrated business solutions, such as e-commerce, business intelligence and office solutions; and
- enterprise and professional services, such as fire wall management, stress testing, customized web site activity reporting and enhanced security service.

We deliver our services from geographically distributed, advanced Internet data centers that are connected to our dedicated and redundant Internet backbone network. Our tailored solutions are designed to integrate with existing enterprise systems architectures and to enable customers to outsource the monitoring, administration and optimization of their equipment, applications and overall Internet operations.

Through our controlling interest in Digex, we have been able to expand our web hosting by providing a comprehensive portfolio of hosting products and services for mid-sized and large businesses. These services enable businesses to more rapidly and cost-effectively deploy secure and reliable business solutions, including on-line financial services, on-line procurement, electronic retailing and customer self-service applications, to our customers over the Internet.

Internet services revenue for 2001 grew by approximately 28.7% to $3.2 billion, or 9.0% of WorldCom total revenues, versus $2.5 billion, or 6.3% of WorldCom total revenues, for 2000 and $1.6 billion, or 4.3% of WorldCom total revenues, for 1999.

Commercial local and long distance voice communications

We provide a single source for integrated local and long distance telecommunications services and facilities management services to businesses, government entities and other telecommunications companies.

The market for local exchange services consists of a number of distinct service components. These services include:

- local network services, which generally include basic dial tone and private line services;
- network access services, which consist of the local portion of long distance telephone calls; and
- long distance network services.

We also offer a broad range of related services that enhance customer convenience, add value and provide additional revenue sources. Advanced toll-free services offer features for caller and customer convenience, including a variety of call routing and call blocking options, customer reconfiguration, termination overflow to switched or dedicated lines, dialed number identification service, real-time automatic number identification and flexible after-hours call handling services.

Commercial local and long distance voice services revenues for 2001 were $6.6 billion, or 18.7% of WorldCom total revenues, versus $7.0 billion, or 18.0% of WorldCom total revenues, for 2000 and $7.4 billion, or 20.7% of WorldCom total revenues, for 1999.

International Operations

Our global strategy is enabled by our position as an owner of telecommunications infrastructure throughout Europe, the Middle East, Africa, Asia Pacific and North America. Our international strategy is to use this foundation to design and deliver product sets and features globally so that multinational enterprises enjoy a consistency in service performance regardless of geography.

We provide switched voice, private line, and/or value-added data services over our own facilities and leased facilities in the United Kingdom, Germany, France, the Netherlands, Sweden, Switzerland, Belgium, Italy, Ireland, Luxembourg, Denmark, Finland, Hungary, Poland, Portugal, the Czech Republic, Greece, Israel, Austria, Norway and Spain. We operate metropolitan digital fiber optic networks in London, Paris, Frankfurt, Hamburg, Dusseldorf, Amsterdam, Rotterdam, Stockholm, Brussels, Zurich, Geneva, Dublin and Milan. We also offer international services over owned and leased facilities in selected Asian and African markets, including Australia, Japan, Hong Kong, Singapore, New Zealand, Indonesia, Malaysia, Thailand, Philippines, Taiwan, South Korea, China, India, South Africa, Botswana, Namibia, Kenya and Zambia. We were granted authority in the first quarter of 1998 to serve as a local and international facilities-based carrier in Australia and Japan and now operate metropolitan digital fiber optic networks in Sydney, Melbourne, Osaka and Tokyo. In early 2000 we were also granted a Type 1 license in Singapore, where we also operate a metropolitan digital fiber network.

Data centers are being deployed throughout Europe and Asia Pacific, interconnected with the global networks, allowing us to expand into new business areas using our worldwide telecommunications infrastructure as the platform for technology and service expansion.

Our equity investment in Embratel further extends our local-to-global-to-local strategy. Embratel's business consists principally of providing intra-regional long distance, inter-regional long distance and international long distance telecommunications services as well as data communications, text, Internet services and mobile satellite and maritime communications services. Embratel operates under a domestic long distance concession and an international long distance concession granted by Brazil's Agencia Nacional de Telecomuniçacões.

During the second quarter of 2001, we reached a long-term strategic decision to restructure our investment in Embratel. The restructuring included the resignation of certain Embratel board of directors seats, the irrevocable obligation to vote a portion of our common shares in a specified manner and the transfer of certain economic rights associated with such shares to an unrelated third party. Based on these actions, the accounting principles generally accepted in the United States prohibit the continued consolidation of Embratel's results. Accordingly, we have deconsolidated Embratel's results effective January 1, 2001.

Revenues from international operations for 2001 were approximately $3.0 billion, or 8.5% of WorldCom total revenues, versus $5.9 billion, or 15.0% of WorldCom total revenues, for 2000 and $4.4 billion, or 12.2% of WorldCom total revenues for 1999. Excluding Embratel in the 2000 period, international revenues increased 25.8% from $2.4 billion, or 6.7% of WorldCom total revenues for 2000.

Facilities

Networks

We own domestic long distance, international and multi-city local service fiber optic networks with access to additional fiber optic networks through lease agreements with other carriers. Additionally, we own and lease trans-oceanic cable capacity in the Atlantic and Pacific Oceans.

Deployed in business centers throughout the United States, Western Europe, the United Kingdom, Australia and Japan, our local networks are constructed using a closed loop which is referred to as ring topology. Transmission networks are based on optical network equipment. Network backbones and local networks are installed in rights-of-way owned by us or leased from third parties such as utilities, railroads, long distance carriers, state highway authorities, local governments and transit authorities. Lease arrangements are generally executed under multi-year terms with renewal options and are non-exclusive.

The long distance and local networks are protected by systems that are capable of restoring backbone traffic in the event of an outage in milliseconds. In addition, long distance and local switched traffic is dynamically rerouted via switch software to any available capacity to complete calls.

To serve customers in buildings that are not located directly on the fiber networks, we utilize leased T-3s, T-1s or local connections obtained from the traditional local phone companies, competitive local exchange carriers and other carriers who serve these buildings.

Our Internet infrastructure is based on our OC-192c and OC-48c optical networks which use a combination of asynchronous transfer mode, frame relay and router technologies to transport data.

We are deploying technology that integrates wide area networks for businesses with the public switched telecommunications network utilizing voice-over-Internet protocol gateways and session initiated protocol, which will provide businesses with a wide range of Internet voice and messaging services.

The WorldCom group is allocated an expense and the MCI group is allocated a corresponding decrease in depreciation expense for the use by the WorldCom group of the business voice switches attributed to the MCI group. The allocation is equal to a proportion, based on usage, of the MCI group's related costs. All other material transactions between the groups are intended to be on an arm's-length basis.

Internationally, we own or lease fiber optic capacity on most major international undersea cable systems in the Pacific and Atlantic Ocean regions. We also own fiber optic capacity for services to Eastern Europe, Asia, Central America, South America and the Caribbean. Furthermore, we own and operate 36 international gateway satellite earth station antennas, which enable us to extend public switched and private line voice and data communications to and from locations throughout the world.

Our network statistics, excluding Embratel, are as follows:

	December 31, 2000	December 31, 2001
Domestic and international long distance route miles	56,496	58,832
Local domestic and international route miles	10,153	10,937
Voice grade equivalents	65,537,123	76,415,566
Buildings connected	61,674	79,383
Domestic telecom collocations	477	531
Facilities based cities	123	124

Data Network Switching

Our asynchronous transfer mode networks utilize our intracity fiber connections to customers, asynchronous transfer mode switches and high-capacity fiber optic networks. Asynchronous transfer mode is a switching and transmission technology based on encapsulation of information in short (53-byte) fixed-length packets or "cells." Asynchronous transfer mode switching was specifically developed to allow simultaneous switching and transmission of mixed voice, data and video (sometimes referred to as "multimedia" information at various rates of transmission). In addition, characteristics of asynchronous transfer mode switching allow switching information to be directly encoded in integrated circuitry rather than in software.

Our frame relay networks utilize our owned and maintained frame relay switches and our high-capacity fiber optic networks to provide data networking services to commercial customers. Networking equipment at customer sites connects to our frame relay switches which in turn are connected to each other via our extensive fiber optic networks. Frame relay utilizes variable length frames of data to transport customer data from one customer location across our networks to another customer location. Customers utilize the frame relay technology to support traditional business applications such as connecting local networks and financial applications.

Rates and Charges

Domestic and international business switched voice services originating in the United States are primarily billed in six-second increments; other rate structures bill in 18, 30 or 60 second increments. Switched voice services originating in international markets are billed in increments subject to local market conditions and interconnect agreements. Switched long distance services are billed in arrears, with monthly billing statements itemizing date, time, duration and charges. Local charges may be billed in arrears or in advance. Fixed recurring charges are billed in advance while metered charges are billed in arrears. Data services are generally billed a fixed rate per circuit and, depending on the service, a separate fixed network port charge. Data service rates are based on the speed of transmission, and depending on the service type, may be billed in arrears or in advance. Private line services are billed monthly in advance, with the invoice indicating applicable rates by circuit. Our rates are generally designed to be competitive with those charged by other long distance and local carriers.

Our Internet access products are sold in the United States and in many foreign countries for both domestic and global Internet services. Prices vary, based on service type. Due to various factors, such as available telecommunications technology, foreign government regulation and market demand, the service options offered outside of the United States vary as to speed, price and suitability for various purposes.

Sales and Marketing

We market our business communications services primarily through a direct sales force targeted at markets defined by both communications needs and geographies. Our commercial sales force of approximately 8,000 people, also provides advanced data specialization for the domestic and international marketplaces, including private line services.

Our sales force can be grouped primarily into three channels. The first targets small to large U.S.-centric enterprises in the U.S. The second addresses the same small to large enterprises outside the U.S. The third channel serves the largest 250 multinational corporations with a unified sales and service organization that mirrors the customers' own operations.

In each of our geographic markets, we employ full service support teams that provide our customers with prompt and personal attention. Our localized management, sales and customer support are designed to engender a high degree of customer loyalty and service quality.

Additionally, during 2001 we launched an online sales and support channel that complements our activities to reach smaller U.S.-based businesses. This web-based channel offers a suite of basic data and voice services in a cost-efficient manner.

Competition

The telecommunications industry is extremely competitive, and we expect that competition will intensify in the future. We face substantial competition in each of our business segments. Some of our existing and potential competitors have financial and other resources significantly greater than ours. Moreover, some of these providers presently enjoy advantages as a result of their historic monopoly control over local exchange facilities. A number of traditional and emerging competitors have made significant investments in advanced fiber optic network facilities. In addition to voice and data competition from long distance service competitors, a number of facilities-based competitive local exchange carriers and cable television multi-system operators plan to offer local telecommunications services in major U.S. cities over their own facilities or through resale of the local exchange carriers' or other providers' services.

Increasingly, we also must compete with equipment vendors and consulting companies in emerging Internet service markets. Companies have obtained or expanded their Internet-based services as a result of network deployment, acquisitions and strategic investments. We expect these acquisitions and strategic investments to increase, thus creating significant new competitors. Furthermore, we expect these firms to devote greater resources to develop new competitive products and services and to market those and existing products and services.

Overseas, we compete with new entrants as well as with incumbent providers, some of which still are partially government-owned, have special regulatory status along with the exclusive rights to provide services, and virtually all of which have historically dominated their local, domestic long distance and international services business. These incumbent providers enjoy numerous competitive advantages including existing facilities, customer loyalty, and substantial financial resources. We often must rely on facilities or termination services from these incumbent providers. We also compete with other service providers, some of which are affiliated with incumbent providers in other countries. We devote extensive resources to obtaining regulatory approvals necessary to operate overseas, and to obtain access to and interconnect with the incumbent's network on a non-discriminatory basis. In Europe, we compete directly with companies such as British Telecom, Deutsche Telekom, Cable & Wireless, France Telecom and Equant, global telecommunications alliances and with regional Internet service providers such as Terra and Oleane.

The development of new technologies and increased availability of domestic and international transmission capacity may also give rise to new competitive pressures. For example, even though fiber optic networks, such as those used by us, are now widely used for long distance transmission, it is possible that the desirability of these networks could be adversely affected by changing technology. The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of new routing and switching technologies, new services, and increasing wireless, satellite and fiber optic transmission capacity for services similar to those provided by us. We cannot predict with certainty which of many possible future product and service offerings will help maintain our competitive position or what expenditures will be required to develop and provide these products and services. Nor can we predict whether spectrum rights that we hold will be affected by regulatory decisions to re-allocate spectrum for other uses, or whether current deployment plans for our multichannel multipoint distribution services will be sustainable if spectrum reallocation occurs.

Under the Telecom Act and ensuing federal and state regulatory initiatives, many barriers to local exchange competition are being eliminated. The introduction of competition, however, also establishes, in part, the ability of the traditional local phone companies to provide inter-LATA long distance services within a particular region. Local access and transport area, or LATA, refers to an area within a geographic region. To date, the FCC has granted applications by Verizon for the states of New York, Massachusetts, Pennsylvania, Connecticut and Rhode Island and by SBC for Texas, Kansas, Oklahoma, Missouri and Arkansas to provide in-region inter-LATA services. We believe the traditional local phone companies will continue to seek to enter these markets given their ownership of extensive facilities in their local service regions, their long-standing customer relationships and their very substantial capital and other financial resources. As the traditional local phone companies are allowed to offer in-region long distance services in additional states, they will be in a position to offer single source local and long distance service similar, if not superior, to that being offered by us. We expect that increased competition will result in additional pricing and margin pressures in the domestic telecommunications services business. In addition, wireless carriers increasingly compete for consumers through nationwide or regional "bucket of minutes plans." Indeed, wireless competition and the availability of inexpensive long-haul transport has already significantly reduced consumer long distance pricing, and as a result negatively affected the profitability of traditional service providers. As rates stabilize, we expect to compete effectively as a result of our innovation, quality and diversity of services, our ability to offer a combination of services, and our level of customer service.

As noted, we offer data communications and Internet-based services, including web hosting, collocation services, virtual private network services, dedicated and wholesale Internet access, and related services. This is an extremely competitive business and we expect that competition will intensify in the future. We believe that the ability to compete successfully in this arena depends on a number of factors, including:

- industry presence;
- the ability to expand rapidly;
- the capacity, reliability and security of network infrastructure;
- ease of access to and navigation on the Internet;
- the pricing policies of our competitors and suppliers;
- the timing of the introduction of new products and services by us and our competitors;
- our ability to support industry standards; and
- industry and overall economic trends.

Our success will depend heavily upon our ability to provide high quality data communications services, including Internet connectivity and value-added Internet services, at competitive prices.

Employees

Through our businesses attributed to the WorldCom group, we employed a total of approximately 61,800 full and part-time personnel, including Digex, as of February 28, 2002, approximately 400 of whom are represented by organized labor organizations. We consider our relationship with these employees to be good.

Patents, Trademarks, Tradenames and Service Marks

We actively pursue the protection of intellectual property rights in the United States and relevant foreign jurisdictions. Our continuing efforts have produced numerous issued patents and pending patent applications on innovative technology.

All tradenames, including the MCI tradename and the other related MCI tradenames, have been attributed to the WorldCom group. The MCI group will be allocated an expense and the WorldCom group will be allocated a corresponding decrease in depreciation and amortization expense for use of the MCI tradenames for the next four years based on the following schedule:

2002: $30.0 million
2003: $35.0 million
2004: $40.0 million
2005: $45.0 million

Any renewal or termination of use of the MCI tradename by the MCI group will be subject to the general policy that our board of directors will act in the best interests of WorldCom. For each of the years ended December 31, 1999, 2000 and 2001, depreciation and amortization expense associated with the MCI tradenames allocated to the WorldCom group was decreased by $27.5 million per annum for use of the MCI tradenames by the MCI group.

Regulation and Litigation

We are involved in legal and regulatory proceedings that are incidental to our business and have included loss contingencies in other current liabilities and other liabilities for these matters in our financial statements. In some instances, rulings by federal, state and international regulatory authorities may result in increased operating costs to us. The results of these various legal and regulatory matters are uncertain and could have a material adverse effect on our consolidated results of operations or financial position.

Regulation

We are subject to varying degrees of federal, state, local and international regulation. In the United States, our subsidiaries are most heavily regulated by the states, especially for the provision of local exchange services. Our subsidiaries must be certified separately in each state to offer local exchange and intrastate long distance services. No state, however, subjects us to rate of return regulation, nor are we currently required to obtain FCC authorization for installation or operation of our network facilities used for domestic services, other than licenses for specific multichannel multipoint distribution services, wireless communications service and terrestrial microwave and satellite earth station facilities that utilize radio frequency spectrum. FCC approval is required, however, for the installation and operation of our international facilities and services. We are subject to varying degrees of regulation in the foreign jurisdictions in which we conduct business, including authorization for the installation and operation of network facilities. Although the trend in federal, state and international regulation appears to favor increased competition, no assurance can be given that changes in current or future regulations adopted by the FCC, state or foreign regulators or legislative initiatives in the United States or abroad would not have a material adverse effect on us.

In August 1996, the FCC established nationwide rules pursuant to the Telecom Act designed to encourage new entrants to compete in local service markets through interconnection with the traditional local phone companies, resale of traditional local phone companies' retail services, and use of individual and combinations of unbundled network elements, owned by the traditional local phone companies. Unbundled network elements are defined in the Telecom Act as any "facility or equipment used in the provision of a telecommunication service," as well as "features, function, and capabilities that are provided by means of such facility or equipment." In January 1999, the Supreme Court of the United States confirmed the FCC's authority to issue the rules, including a pricing methodology for unbundled network elements. On remand, the FCC clarified the requirement that traditional local phone companies make specific unbundled network elements available to new entrants. The traditional local phone companies have sought reconsideration of the FCC's order and have petitioned for review of the order in the United States Court of Appeals for the D.C. Circuit. That case is pending.

In its January 1999 decision, the Supreme Court remanded to the United States Court of Appeals for the Eighth Circuit various substantive questions concerning the FCC's rules for pricing unbundled network elements. In July 2000, the Eighth Circuit upheld the use of a forward-looking methodology but struck down the portion of the rule that calculates costs based on efficient technology and design choices. At the request of various parties, including us, the Supreme Court is reviewing the Eighth Circuit's decision. The Supreme Court heard oral argument in October 2001, and a ruling is expected in the first half of 2002.

In December 1999, the FCC concluded that in providing high-speed digital subscriber line services, the incumbent local phone companies should be required to share primary telephone lines with competitive local exchange carriers, and the FCC identified the high frequency portion of the loop as a network element. In January 2001, the FCC clarified that the requirement to share lines applies to the entire loop, even where the traditional incumbent local phone company has deployed fiber in the loop. Under the order, the incumbent local phone companies must permit competing carriers to self-provision or partner with a data carrier in order to furnish voice and data service on the same line. The incumbent local phone companies have appealed these two rulings and we have intervened in support of the FCC.

In December 2001 and February 2002, the FCC issued a series of Notices of Proposed Rulemaking, seeking to streamline and simplify the requirements imposed on traditional local phone companies with respect to unbundled network elements, broadband Internet access, and advanced services. Comments are due during the spring of 2002, and decisions are expected before the end of 2002. WorldCom cannot predict the outcome of these proceedings. However, if regulations are streamlined or removed, there are elements and combinations of elements upon which WorldCom relies to provide local services, broadband and advanced services that might no longer be required as a matter of federal regulation.

The Telecom Act requires traditional local phone companies to petition the FCC for permission to offer long distance services for each state within their region. Under section 271 of the Telecom Act, for these applications to be granted, the FCC must find, among other things, that the traditional local phone company has demonstrated that it has satisfied a 14-point competitive checklist to open its local network to competition and that granting the petition is in the public interest. To date, the FCC has rejected five traditional local phone company applications and it has granted ten: Verizon's for New York, Massachusetts, Connecticut, Pennsylvania and Rhode Island and SBC's for Texas, Kansas, Oklahoma, Missouri and Arkansas. WorldCom and other competitive carriers appealed to the D.C. Circuit the approvals for Kansas, Oklahoma and Massachusetts. On December 28, 2001, the D.C. Circuit decided that the FCC had not adequately addressed whether the prices charged for leasing network elements by SBC in Kansas and Oklahoma create a price squeeze which violated the standards for SBC to gain long distance approval. Without vacating the approval, the D.C. Circuit remanded the case to the FCC for it to address the price squeeze issue. A briefing schedule has not been established for the Massachusetts appeal. BellSouth has filed applications to offer long distance service for Georgia and Louisiana, and Verizon has filed applications for Vermont and New Jersey. Other applications may be filed at any time. We have challenged, and will continue to challenge, any application that does not satisfy the requirements of section 271 or the FCC's local competition rules. To date, these challenges have focused on the pricing of unbundled network elements and on the adequacy of the traditional local phone companies' operations support systems. In addition, legislation has been introduced in Congress that would have the effect of allowing traditional local phone companies to offer in-region long distance data services without satisfying section 271 of the Telecom Act and/or of making it more difficult for competitors to resell incumbent local phone company high-speed Internet access services or to lease the unbundled network elements used to provide these services. To date, WorldCom and others have successfully opposed these legislative initiatives.

In February 1999, the FCC issued a Declaratory Ruling and Notice of Proposed Rulemaking regarding the regulatory treatment of calls to Internet service providers. Prior to the FCC's order, over thirty state public utility commissions issued orders finding that carriers, including us, are entitled to collect reciprocal compensation for completing calls to Internet service providers under the terms of their interconnection agreements with traditional local phone companies. Many of these public utility commission decisions were appealed by the traditional local phone companies and, since the FCC's order, many traditional local phone companies have filed new cases at the public utility commissions or in court. We petitioned for review of the FCC's order in the D.C. Circuit, which vacated the order and remanded the case to the FCC for further proceedings. In April 2001, the FCC issued an Order on Remand and Report and Order asserting jurisdiction over calls to Internet service providers and establishing a three-year transitional scheme of decreasing reciprocal compensation rates. We filed a petition for review of the FCC's order with the D.C. Circuit, and the Court heard oral arguments on February 12, 2002.

It is possible that spectrum rights held may be disrupted by FCC decisions to re-allocate some or all of that spectrum to other services. If this re-allocation were to occur, we cannot predict whether current deployment plans for our multi-channel multipoint distribution service services will be sustainable.

Litigation

In November 2000, class action complaints were filed in the United States District Courts for the Southern District of Mississippi, the Southern District of New York, and the District of Columbia against WorldCom and some of our executive officers. All of these actions were consolidated in the Southern District of Mississippi on March 27, 2001, along with another purported class action lawsuit filed on behalf of individuals who purchased stock in Intermedia between September 5 and November 1, 2000, which action asserts substantially similar claims and alleges that after the announcement of the WorldCom-Intermedia merger, the price of Intermedia stock was tied to the price of WorldCom stock. On June 1, 2001, the plaintiffs filed a consolidated amended complaint. Among other things, the consolidated amended complaint alleged that statements regarding WorldCom's revenues, the integration of MCI, the success of UUNET Technologies, and the expansion of WorldCom's network were false; WorldCom's financial disclosures were false; and WorldCom's announcement of its "generation d" initiative was misleading. Based on these allegations, the consolidated amended complaint asserts claims for violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act of 1934. The consolidated amended complaint seeks to certify a class of persons who purchased WorldCom shares between February 10, 2000 and November 1, 2000, inclusive; it does not assert separate claims on behalf of purchasers of Intermedia shares. On August 7, 2001, WorldCom and the individual defendants filed a motion to dismiss the consolidated amended complaint in its entirety. We believe that the factual allegations and legal claims asserted in the consolidated amended complaint are without merit and intend to defend them vigorously.

In August 1997, three complaints were filed in the United States District Court for the District of Columbia, as class actions on behalf of purchasers of MCI shares. The three cases were consolidated on April 1, 1998. On or about May 8, 1998, the plaintiffs in all three cases filed a consolidated amended complaint alleging, on behalf of purchasers of MCI's shares between July 11, 1997 and August 21, 1997, inclusive, that MCI and some of its officers and directors failed to disclose material information about MCI, including that MCI was renegotiating the terms of the MCI BT merger agreement. The consolidated amended complaint seeks damages and other relief. WorldCom and the other defendants have moved to dismiss the consolidated amended complaint.

MCI Group Operations

Overview

We provide a broad range of retail and wholesale communications services, including long distance voice and data communications, consumer local voice communications, wireless messaging, private line services and dial-up Internet access services. Our retail services are provided to consumers and small businesses in the United States. We are the second largest carrier of long distance telecommunications services in the United States. We provide services such as: basic long distance telephone service, dial around, collect calling, operator assistance and calling card services (including prepaid calling cards) and toll-free or 800 services to approximately 20 million residential and small business customers and over 470 carriers and other resellers. We offer these services individually and in combinations. Through combined offerings, we provide customers with benefits such as single billing, unified services for multi-location companies and customized calling plans. Our wholesale businesses include wholesale voice and data services provided to carrier customers and other resellers, and dial-up Internet access services.

Our management's goal is to use our existing market positions and assets opportunistically to optimize cash flow, while paying dividends and retiring the debt attributed to the MCI group. Available cash flow, after dividend payments, will be available for debt repayments and possible share repurchases. The businesses attributed to the MCI group have significant assets, including the nationally recognized brand, extensive customer relationships, 19 call centers with highly effective sales representatives and a tradition of developing innovative calling plans that enhance customer retention. Management believes it can leverage these strengths to deliver new services and to bundle existing services.

The businesses attributed to the MCI group accounted for 39.3% of our revenues, (1.7)% of our net income and 13.4% of our assets for the year ended December 31, 2001. For the year ended December 31, 2000, the MCI group accounted for 41.8% of our revenues, 38.0% of our net income and 14.8% of our assets.

Industry

The communications services industry continues to change both domestically and internationally, providing significant opportunities and risks to the participants in these markets. In the United States, the Telecom Act significantly impacted our business by establishing a statutory framework for opening the U.S. local service markets to competition and by allowing the traditional local phone companies to provide in-region long distance services. In addition, prices for long distance minutes and other basic communications services declined as a result of competitive pressures, the introduction of more efficient networks and advanced technologies, product substitution, and deregulation. Competition in these segments is based more on price and less on other differentiating factors that appeal to the larger business market customers including: range of services offered, bundling of products, customer service, and communications quality, reliability and availability.

The wholesale business is currently undergoing a similar transformation. The decreasing number of switchless long distance resellers combined with the intense competition has led to significant price declines and margin pressure.

The consumer and small business long distance segment is characterized by rapid deregulation and intense competition among long distance providers, and more recently, traditional local phone companies. Under the Telecom Act, traditional local phone companies may offer long distance services in a state within its region if the FCC finds first, that the traditional local phone company's service territory within the state has been sufficiently opened to local competition and second, that allowing the traditional local phone company to provide these services is in the public interest. We have challenged, and will continue to challenge, any application that does not meet the criteria envisioned by the Telecom Act or the related rules relating to local competition issued by the FCC.

Strategy

Because of changes in the communications industry, our objective is to leverage the assets attributed to the MCI group and our established market presence to maximize cash flow returns from our mature businesses attributed to the MCI group. With respect to the businesses attributed to the MCI group we intend to:

Optimize resources: We intend to focus our strategies on enhancing margins and cash flow. We expect to be opportunistic and undertake only those initiatives that can generate cash flow without significant capital commitment.

Leverage MCI brand: The internationally recognized MCI brand will be an important component of our marketing initiatives.

Leverage marketing channels: We intend to enhance the utilization of our existing telemarketing centers and mass-market distribution channels to grow our customer base, enhance customer retention and expand our consumer product offerings.

Expand local services: We have entered local communications markets in New York, Pennsylvania, Texas, Illinois, Michigan, Georgia, California, Florida and Ohio and will selectively evaluate similar opportunities.

Improve operations support systems and automation: We intend to continue to improve operations support systems and increase automation to improve efficiency, enhance customer service and develop a platform for more value-added services.

Continue to leverage advanced networks: We intend to continue to leverage WorldCom's extensive, advanced and scaleable fiber optic networks to provide differentiated services at competitive rates.

Description of Services

The MCI group's services include long distance voice communications, local voice communications, wireless messaging and other services, wholesale communications services as well as dial-up Internet access. We believe that our assets attributed to the MCI group, including the call centers, sales representatives, customer relationships and our significant marketing skills will allow us to expand our products and services to our existing consumer base without significantly increasing capital spending.

Long Distance Voice Communications

We are the second largest provider of long distance telecommunications services in the United States, including consumer, small business and wholesale. We offer domestic and international voice services, including basic long distance telephone, dial around, collect calling, operator assistance and calling card (including prepaid cards), 800 services, and directory services. Long distance voice services are offered individually or combined as a bundle with other services such as local voice services. Our market position in the long distance voice segment is sustained by our telemarketing and other marketing channels and marketing support for the MCI brand. In the year ended December 31, 2001, we provided 94.7 billion minutes of service compared to 104.4 billion in 2000 and 92.9 billion minutes in 1999. For the year ended December 31, 2001, long distance services, including consumer, small business, wholesale and alternative channels, provided $10.2 billion of revenues, or 28.9% of WorldCom total revenues, versus $12.4 billion of revenues, or 31.7% of WorldCom total revenues, for 2000 and $12.6 billion of revenues, or 35.0% of WorldCom total revenues, for 1999.

Consumer Local Voice Communications

We are aggressively, yet prudently expanding our local service and we have selectively entered local exchange markets, including New York, Pennsylvania, Texas, Illinois, Michigan, Georgia, California, Florida and Ohio. We provide local toll and switched access services to residential and small business customers, typically through our own switches and through unbundled network elements leased from traditional local phone companies. We usually lease the underlying traditional local phone company network elements as a bundle, consisting of seven elements, most notably the local wire to the customer, the switch equipment, and call switching. We pay the traditional local phone company a monthly fee for the local wire to the customer and switch equipment and a per-minute fee for switching. This mode of service delivery enables us to lower the cost of providing call origination as well as providing us with call termination revenue. For those customers who subscribe for both local and long distance services, we offer an "all-distance" calling plan that bundles the services at an attractive price for the customer and enhances customer retention.

As of December 31, 2001, we had a total of 1.5 million local exchange customers. Approximately 83% of our local exchange customers also subscribe to our long distance service. The consolidated local and long distance subscribers deliver three times the lifetime revenue of standalone long distance customers due to much higher monthly spending and lower subscriber churn. We estimate that our market share in New York is 7%, Pennsylvania and Texas are 5%, Illinois is 6%, Michigan is 9% and Georgia is 4% and local service in California, Florida and Ohio each generated less than 1% of market share. Additionally, we are able to reach 41% of all U.S. households in RBOC territories. For the year ended December 31, 2001, consumer local services provided $500 million of revenue, or 1.4% of WorldCom total revenues, versus $179 million, or 0.5% of WorldCom total revenues, for 2000 and $41 million, or 0.1% of WorldCom total revenues, for 1999.

Dial-up Internet Access

Our dial-up Internet access business primarily serves consumer-oriented Internet service providers that are accessed via dial-up modems. New technologies, including dedicated access provided by carriers, and increased competition have caused significant price declines. Although we believe we are well positioned in this segment due to the strength of our extensive customer relationships and the scale of our networks, we expect pricing pressure to continue to negatively affect our business.

As of December 31, 2001, we managed 3.2 million modems versus 2.8 million modems as of December 31, 2000. In addition, we provided 7.1 billion hours of Internet access for the year ended December 31, 2001 versus 6.5 billion hours for 2000 and 4.2 billion hours for 1999. For the year ended December 31, 2001, dial-up Internet access services provided $1.5 billion of revenue, or 4.4% of WorldCom total revenues, versus $1.6 billion, or 4.2% of WorldCom total revenues, for 2000 and $1.5 billion, or 4.2% of WorldCom total revenues, for 1999.

Wholesale Data Services

Our wholesale data services consist primarily of the sale of private lines to carrier customers. This service experienced significant pricing pressure due largely to the entry of new competitors and the build-out of facilities by our customers allowing them to provide more services over their own facilities.

We anticipate that wholesale data services will increasingly become a smaller percentage of total revenues as we focus on providing services to end-customers rather than competitive carriers. For the year ended December 31, 2001, wholesale data services, including wholesale alternative channels, provided $1.2 billion of revenue, or 3.3% of WorldCom total revenues, versus $1.4 billion, or 3.7% of WorldCom total revenues, for 2000 and $1.5 billion, or 4.2% of WorldCom total revenues for 1999.

Wireless Messaging

We provide and market our paging services through SkyTel Communications, Inc., a leading provider of wireless messaging services in the United States and a wholly owned subsidiary of WorldCom. As of December 31, 2001, SkyTel had approximately 1.1 million units in service in the United States which included approximately 600,000 domestic one-way units and 540,000 advanced messaging units. For 2001, these services provided $441 million of revenue, or 1.3% of WorldCom total revenues, versus $549 million, or 1.4% of WorldCom total revenues, for 2000 and $470 million, or 1.3% of WorldCom total revenues, for 1999.

Facilities

Our long distance voice switches have been allocated to the MCI group. Domestic long distance services are provided primarily over the fiber optic communications systems attributed to the WorldCom group. To a lesser extent, we will continue to utilize transmission facilities leased from other common carriers. International communications services are provided by submarine cable systems in which WorldCom holds positions, satellites and facilities of other domestic and foreign carriers.

Long distance voice services are provided by long distance voice switches using circuit switched technology. Voice switches are interconnected together and provide standard long distance voice services as well as a variety of value-added services. To reduce capital investment in circuit switches, we are deploying softswitches to process Internet dial-up access independent of our circuit switches. The softswitches are general-purpose based computer systems which route calls directly to the public Internet.

Our dial-up Internet access network consists of equipment and network configurations all generally designed to terminate inbound Internet data calls from end users. Generally, the equipment consists of network access servers, which are general purpose computing devices containing concentrated quantities of digital modems. The equipment in off-net locations is, in many cases, owned and operated by the traditional local phone company pursuant to service arrangements. The remaining equipment is owned and maintained in our own facilities or in leased co-location facilities.

The MCI group is allocated an expense and the WorldCom group is allocated a corresponding decrease in depreciation and amortization expense for the use by the MCI group of the fiber optic systems and buildings, furniture, fixtures and equipment attributed to the WorldCom group. The expense is equal to a proportion, based on usage, of the WorldCom group's related costs. All other material transactions between the groups are intended to be on an arm's-length basis.

Most of our customers access their services through local interconnection facilities provided by the traditional local phone companies. We utilize unbundled network elements to provide local services in New York, Pennsylvania, Texas, Illinois, Michigan, Georgia, California, Florida and Ohio. As we expand in other markets upon deregulation and market evaluation, we expect to continue to utilize unbundled network elements to offer local communications services.

Collectively, we own 19 call centers, which range in size from 40,000 square feet to over 100,000 square feet.

Rates and Charges

We charge switched customers on the basis of a fixed rate per line plus minutes or partial minutes of usage at rates that vary with the distance, duration and time of day of the call. For local service, customers are billed a fixed charge plus usage or flat rated charges depending on the plan chosen by the customer. The rates charged are not affected by the particular transmission facilities selected by us. Additional discounts are available to customers who generate higher volumes of monthly usage. Our dial-up Internet access prices vary based on service type.

Sales and Marketing

We believe our sales and marketing capabilities are one of our strongest competitive advantages. Telemarketing is a fundamental component of the sales effort for residential and small business customers. Typically, over 50% of our residential and small business installations are sold through some 7,700 telemarketers based in 19 call centers nationwide. Our marketing partners, in turn, are a key competitive advantage for differentiating long distance sales, offering consumers the opportunity to earn frequent flyer miles, free video rentals, and similar awards based on long distance usage. Over 46% of subscription long distance minutes are generated by our 6.2 million partner customers.

We also increased our market share among high spending international callers through broad-based marketing efforts. Moreover, we have successfully launched branded transaction products such as "10-10-220" and "1-800-Collect." Our industry leading "10-10-220" product provides a unique way for customers to save on every call and helps maintain strong brand recognition.

Alternate marketing channels include direct sales agents and prepaid card distribution. There are over 400 sales agents throughout the United States marketing to consumers and small businesses through marketing groups. We retain a leading position in the prepaid calling card market as well.

Through our direct sales force, we market various services to resellers including customers such as Verizon. We are a leader in the dial-up Internet access market segment with all major Internet service providers as wholesale customers, including, among others, AOL, Earthlink, and MSN.

Competition

The telecommunications industry is extremely competitive, and we expect that competition will intensify in the future. In each of our business segments, we face intense competition from other service providers. The primary competitors in the domestic and international consumer segments are AT&T, Sprint and, where they are permitted to offer in-region long distance service, Verizon and SBC. We also compete against other facilities-based long distance providers, such as Qwest. The traditional local phone companies presently have numerous advantages as a result of their historic monopoly control over local exchanges, and some of our existing and potential competitors have financial and other resources significantly greater than ours. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors.

Under the Telecom Act and ensuing federal and state regulatory initiatives, many barriers to local exchange competition are being eliminated. The introduction of competition, however, also establishes, in part, the ability of the traditional local phone companies to provide inter-LATA long distance services. To date, the FCC granted applications by Verizon for the states of New York, Massachusetts, Pennsylvania, Connecticut and Rhode Island and by SBC for Texas, Kansas, Oklahoma, Missouri and Arkansas to provide in-region inter-LATA services. We believe the traditional local phone companies will continue to seek to enter these markets given their ownership of extensive facilities in their local service regions, their long-standing customer relationships and their very substantial capital and other financial resources. As the traditional local phone companies are allowed to offer in-region long distance services in additional states, they will be in a position to offer single source local and long distance service similar, if not superior, to that being offered by us. We expect that increased competition will result in additional pricing and margin pressures in the domestic telecommunications services business. In addition, wireless carriers increasingly compete for consumers through nationwide or regional "bucket of minutes plans." Indeed, wireless competition and the availability of inexpensive long-haul transport has already significantly reduced consumer long distance pricing, and as a result negatively affected the profitability of traditional service providers. As rates stabilize, we expect to compete effectively as a result of our innovation, quality and diversity of services, our ability to offer a combination of services, and our level of customer service.

We expect increased competition from providers determined to exploit technologies which may reduce the cost of providing services. We are working to develop these services and expect to be at the forefront of these technological developments and to leverage them to protect and grow market share, to increase revenues and profitability, and to retain customers.

We also face intense competition in offering wholesale services, small business services, dial-up Internet, and paging and prepaid calling card services. In wholesale services, we compete directly with traditional network access providers such as AT&T and Sprint. We obtain network capacity from our businesses attributed to the WorldCom group and provide wholesale service to other carriers in competition with a variety of facilities-based carriers. There can be no assurance that we will continue to be successful in this segment. In the small business customer segment, we compete against traditional local phone companies and numerous other competitive carriers offering local services, long distance services, or both. Other carriers, particularly competitive local exchange carriers, are aggressively pursuing this segment of the market. Our paging business competes directly with traditional one-way paging providers, and recently experienced significant competition and product substitution from other advanced wireless data service providers, including two-way paging services providers and wireless service providers. Prepaid calling cards are also in an intensely competitive segment where many carriers resell cheaper aggregated international minutes through this medium and where wireless products are further compressing pricing.

Employees

Through our businesses attributed to the MCI group, we employed a total of approximately 23,200 full and part-time personnel as of February 28, 2002 none of whom are represented by organized labor unions. We consider our relationship with these employees to be good.

Patents, Trademarks, Tradenames and Service Marks

All tradenames, including the MCI tradename and the other related MCI tradenames, have been attributed to the WorldCom group. The MCI group will be allocated an expense and the WorldCom group will be allocated a corresponding decrease in depreciation and amortization expense for the use of the MCI tradenames for the next four years based on the following schedule:

2002: $30.0 million
2003: $35.0 million
2004: $40.0 million
2005: $45.0 million

Any renewal or termination of use of the MCI tradename by the MCI group will be subject to the general policy that our board of directors will act in the best interests of WorldCom. For each of the years ended December 31, 1999, 2000 and 2001, an expense of $27.5 million per annum was allocated to the MCI group for use of the MCI tradenames.

Regulation and Litigation

We are involved in legal and regulatory proceedings that are incidental to our business and have included loss contingencies in other current liabilities and other liabilities for these matters in our financial statements. In some instances, rulings by federal and state regulatory authorities may result in increased operating costs to us. The results of these various legal and regulatory matters are uncertain and could have a material adverse effect on our consolidated results of operations or financial position. See the information contained in "Item 1. Business—Business—WorldCom group Operations—Regulation and Litigation," which is incorporated by reference herein, for a discussion of regulation and litigation matters.

ITEM 2. PROPERTIES

The information contained in "Item 1. Business—Business—WorldCom group Operations—Facilities" and "—MCI group Operations—Facilities" is hereby incorporated by reference.

ITEM 3. LEGAL PROCEEDINGS

We are involved in legal and regulatory proceedings generally incidental to our business. In some instances, rulings by federal and some state regulatory authorities may result in increased operating costs to us. As indicated above in Item 1. Business or in note 9 to our notes to consolidated financial statements, which are incorporated herein by reference, the results of these various legal and regulatory matters are uncertain and could have a material adverse effect on our consolidated results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Heritage Affidavit – Attachment J

Competitive Market Conditions
Mid-year Update

Survey of
Top 15 CLECs in Michigan

U-12320

October 2002

The Michigan Public Service Commission Staff conducted a mid-year survey of Ameritech Michigan and 15 Competitive Local Exchange Carriers (CLECs) in Michigan to update the survey results from 12/31/01. This survey was sent out to the top 15 CLECs in the state of Michigan as identified by the results of the survey from the December 31, 2001 data. The data collected was for the mid-year ending June 30, 2002. The top 15 CLECs represent 96% of the CLEC lines from 12/31/01 so for ease of administration and timeliness of the response only the top 15 CLECs were surveyed. This information was gathered to assist the Commission in furthering its evaluation of the state of local competition in Michigan.

The original survey vehicle was developed through a collaborative process set forth in the Commission's order in docket U-12320 in 2000. This survey requests some information that the companies consider confidential. The results of this survey are reported as total group numbers to maintain the confidentiality of the individual company numbers.

Attachment A is a chart that indicates the number of lines attributed to CLECs in Michigan as submitted by the CLECs responding to this survey. Ameritech also reported similar information they have pertaining to the number of lines that they provide to the CLECs although they also estimate the total population of CLEC lines in Michigan. There is a discrepancy between what Ameritech reports and what the CLECs report. This can be attributed to what Ameritech estimates as the number of lines that the CLECs provide totally over their own facilities and what the CLECs report as actual for this category.

From the data compiled through this survey (Attachment A), staff has found that the number of lines provided by the 15 CLECs (including over their own facilities) is 1,118,437. This represents an increase of 261,206 lines over the 12/31/01 figures for this same group of 15 CLECs and this represents a 30% increase for the six-month period. Ameritech reports that their number of access lines for the period ending 6/30/02 is 4,609,518. The number of CLEC lines compared to the total population of CLEC plus Ameritech lines is 20%. That same figure at the 12/31/01 point was 15%. The CLEC lines are comprised of 65% residential customers and 35% business customers. The Staff does not attest to the accuracy of Ameritech's or the CLEC numbers as this is what is reported to the Commission and no independent verification process has been undertaken. This survey is an attempt to assess the trends in activity of CLECs in Michigan and to evaluate the progress of competition.

Attachment A

Competitive Market Conditions
Mid-Year Data Request of top 15 CLECs in Michigan
CLEC Access Line Data
For the Period Ending June 30, 2002
As Reported by CLECs

1. Lines Served via Resale of ILECs service	47,609
2. Lines Served via Unbundled Network Facilities	197,148
3. Lines Served via UNE Platform	724,970
4. Other Dedicated LEC Access Lines	33,619
5. Total via ILEC Facilities (Lines 1 + 2 + 3 + 4)	1,003, 346
6. Lines Served via CLEC Own Facilities	113,786
7. xDSL Lines	1,305
8. Total Lines Served (Lines 5 + 6 + 7)	1,118,437

This survey was sent to the top 15 CLECs as identified as of 12/31/01 as a mid-year update to our annual survey. The Business/Residential split for mid-year 2002 is as follows:

Business Lines	393,306	35%
Residential Lines	725,131	65%
Total Lines	1,118,437	